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Administrator of National Banks

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Comptroller . . . Eugene A. Ludwig

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Background

The Office of the Comptroller of the Currency (OCC) was established in 1863 as a bureau of the Department of the Treasury. The OCC is headed by the Comptroller who is appointed by the President, with the advice and consent of the Senate, for a 5-year term.

The OCC regulates national banks by its power to:

- Examine the banks;
- Approve or deny applications for new charters, branches, capital or other changes in corporate or banking structure;
- Take supervisory actions against banks that do not conform to laws and regulations or which otherwise engage in unsound banking practices, including removal of officers, negotiation of agreements to change existing banking practices, and issuance of cease and desist orders; and
- Issue rules and regulations concerning banking practices and governing bank lending and investment practices and corporate structure.

The OCC divides the United States into six geographical districts, with each headed by a Deputy Comptroller.

The Office is funded through assessments on the assets of national banks.

The Comptroller

Eugene A. Ludwig took the oath of office on April 5, 1993, as the 27th Comptroller of the Currency.

By statute, the Comptroller serves a concurrent term as Director of the Federal Deposit Insurance Corporation and the Neighborhood Reinvestment Corporation. The Comptroller also serves as a member of the Federal Financial Institutions Examination Council.

Mr. Ludwig joined the OCC from the law firm of Covington and Burling in Washington, D.C., where he was a partner beginning in 1981. He specialized in intellectual property law, banking, and international trade. He has written numerous articles on banking and finance for scholarly journals and trade publications, and served as a guest lecturer at Yale and Harvard Law Schools and Georgetown University's International Law Institute.

Mr. Ludwig grew up in York, Pennsylvania, where he attended York Suburban High School. He earned a B.A. magna cum laude from Haverford College in Pennsylvania. He received a Keasbey scholarship to attend Oxford University, where he studied politics, philosophy, and economics and earned a B.A. and M.A. He holds an LL.B. from Yale University, where he served as editor of the Yale Law Journal and chairman of Yale Legislative Services.

The *Quarterly Journal* is the journal of record for the most significant actions and policies of the Office of the Comptroller of the Currency. It is published four times a year in March, June, September and December. The *Quarterly Journal* includes policy statements, decisions on banking structure, selected speeches and testimony, material released in the interpretive letters series, statistical data and other information of interest to the administration of national banks. Suggestions, comments or questions on content may be sent to Claire Emory, Senior Writer/Editor, Communications Division, Comptroller of the Currency, Washington, D.C. 20219. Subscriptions are available for $60 a year by writing to Publications—QJ, Comptroller of the Currency, Washington, D.C. 20219.

Quarterly Journal

Office of the Comptroller of the Currency

Eugene A. Ludwig

Comptroller of the Currency

The Administrator of National Banks

Contents

Operations of National Banks

For the second year in a row, national banks earned record profits. These record profits were accompanied by a rebound in bank loan and asset growth. Preliminary operating results of 3,321 national banks indicate that they earned $25.7 billion in 1993, eclipsing by $8.3 billion the previous record, set last year. Increased profits were due primarily to continued improvement in credit quality and increased noninterest income. Net interest margins also remained high. National banks used those profits to add almost $20 billion to equity capital, improving their aggregate equity capital ratio to 7.85 percent. Loans outstanding at national banks increased for the first time in three years, and all three major types of loans — real estate, commercial and industrial, and consumer — grew over the year. Profitability and loans outstanding increased in all regions of the country, but the performance of national banks in the West continued to be weaker than in other regions.

Record Annual Earnings

National banks earned a return on equity (ROE) for 1993 of 16.87 percent, up from 13.13 percent in 1992, and over 600 basis points higher than the average ROE earned by national banks over the previous 10 years. The primary sources of the high ROE in 1993 were lower provisions for loan losses, resulting from improving credit quality, and increases in noninterest and net interest income.

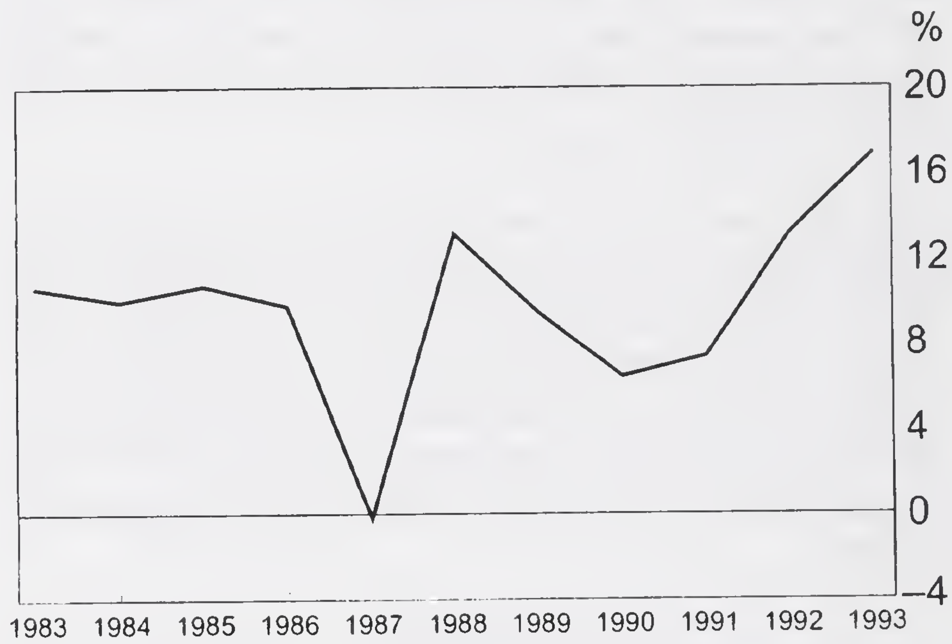
Provisions for loan and lease losses decreased by $6.28 billion to $9.28 billion in 1993, their lowest level since 1984. The decline in provisions reflects the improvement in the credit quality of banks' loan portfolios as noncurrent loans fell by $13.8 billion over the year.

Noninterest income increased by $5.42 billion to $45.38 billion in 1993. Noninterest income accounted for 23.8 percent of operating revenue in 1993, compared to 21.2 percent in 1992. Noninterest income has risen for banks in all size groups, but the largest increase has been for banks with assets over $1 billion. Rising fee income has been the biggest source of the increase in noninterest income.

Net interest income increased by $3.62 billion to $80.26 billion in 1993. The annual net interest margin in 1993 was 3.99 percent, up slightly from the already high 3.97 percent recorded in 1992.

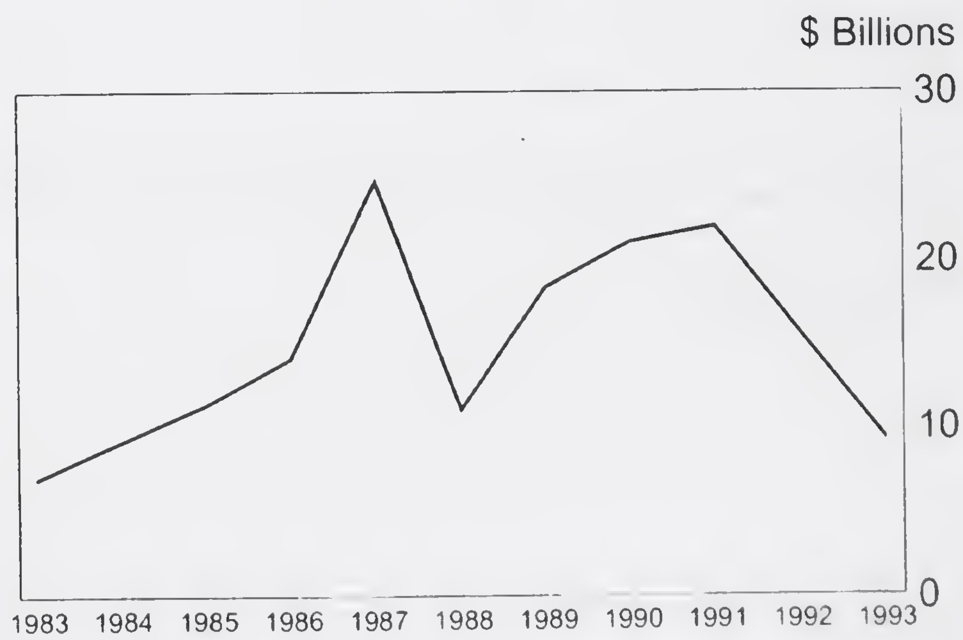
Profitability improved in all regions of the country, but the performance of national banks in the West continued to be weaker than in other regions. Although the annual ROE for national banks in the West rose to 15.71 percent in 1993 from 13.78 percent in 1992, the West was the only region for which the percentage of banks reporting losses rose in 1993, to 16.3 percent from 15.4 percent.

Return on equity



Source: call reports

Loan loss provision



Source: call reports

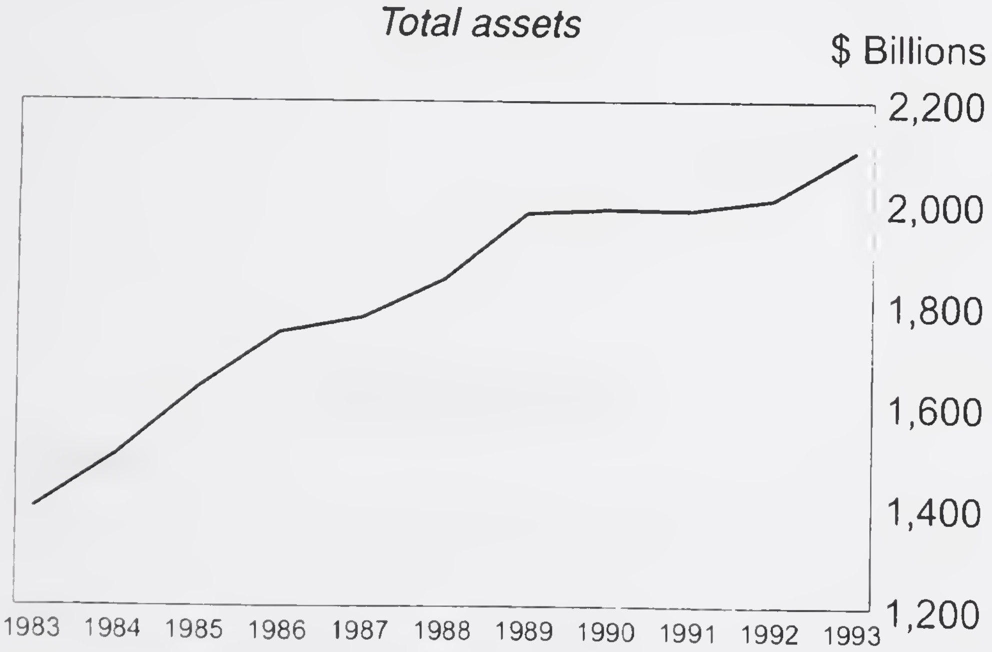
Asset and Loan Growth Rebounded

Total national bank assets grew by 4.7 percent in 1993, compared to an average annual growth rate of just 0.5 percent over the previous three years. Loans outstanding at national banks increased by 6.3 percent in 1993, the first annual increase since 1989 when they rose by 0.4 percent. Also for the first time since 1989, the dollar annual increase in loans, $75.6 billion, was greater than the dollar increase in investment securities held by national banks, $33.3 billion.

For the first time in four years, all three major types of loans — real estate, commercial and industrial, and consumer — increased in 1993. Commercial and industrial loans rose by 4.0 percent, after falling at an average annual rate of 5 percent over the previous three years. Real estate loans grew 5.8 percent and consumer loans 9.4 percent.

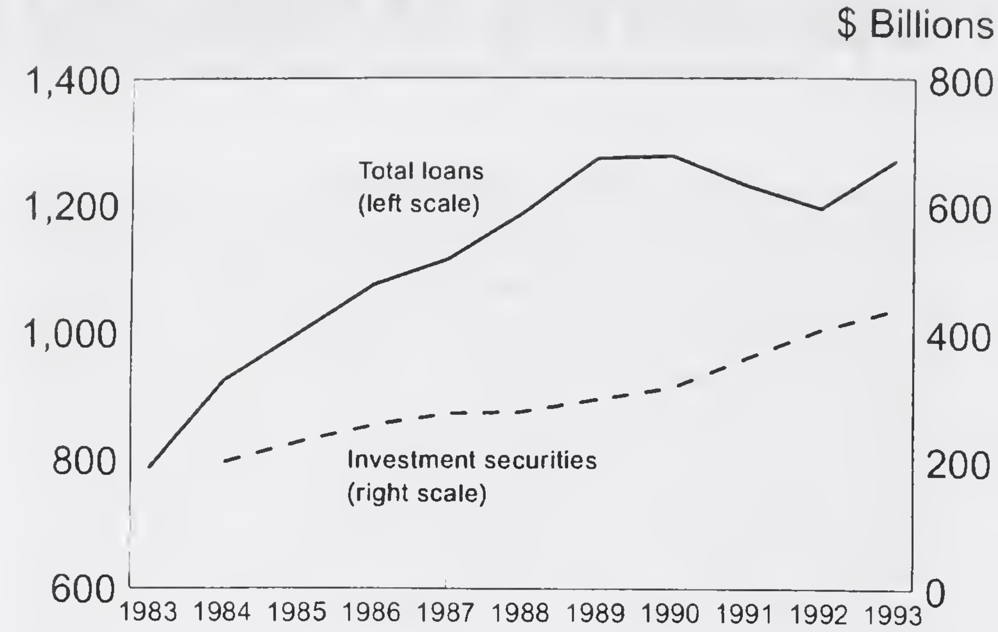
Total loans and all three major types of loans expanded in every region of the country except the West. In the West, although total loans rose by 1.3 percent, real estate, commercial and industrial, and consumer loans all fell. However, the decreases in commercial and industrial, real estate, and consumer loans in the West in 1993 were smaller than the decreases experienced in 1992.

Total assets



Source: call reports

Loans and investment securities

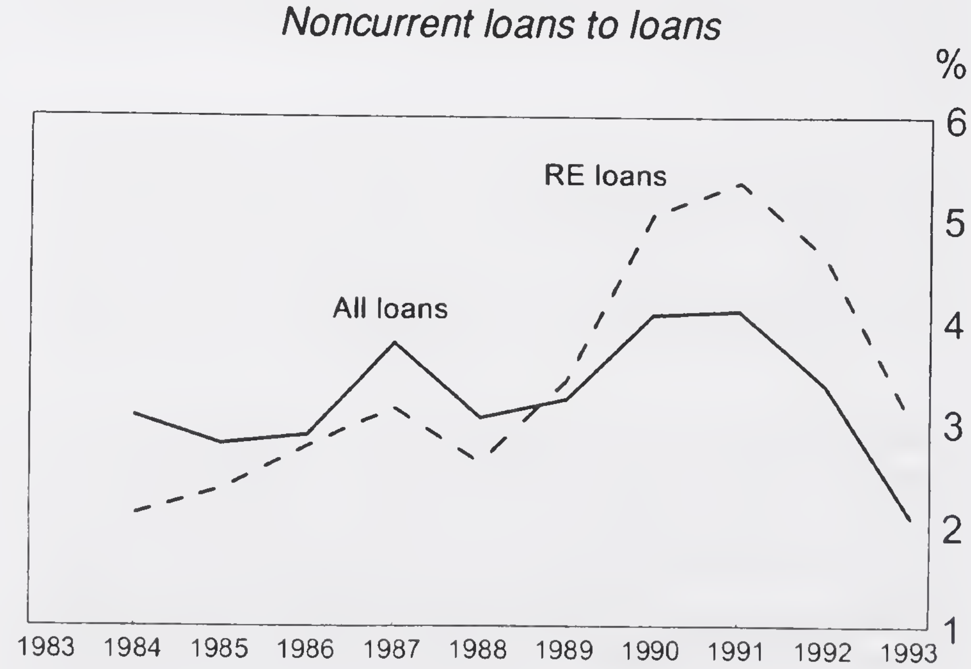


Source: call reports

Credit Quality Continued to Improve

Credit quality at national banks improved considerably in 1993. The dollar amount of noncurrent loans fell by slightly more than one-third, driving the noncurrent loan ratio down to 2.07 percent, its lowest level in the past 10 years. The noncurrent real estate loan ratio, while still above the levels of the early and mid-1980s, also improved rapidly, falling to 3.0 percent in 1993 from 4.6 percent in 1992. The volume of repossessed real estate (OREO) held by national banks dropped by $6.6 billion to $10.5 billion.

Noncurrent loans to loans

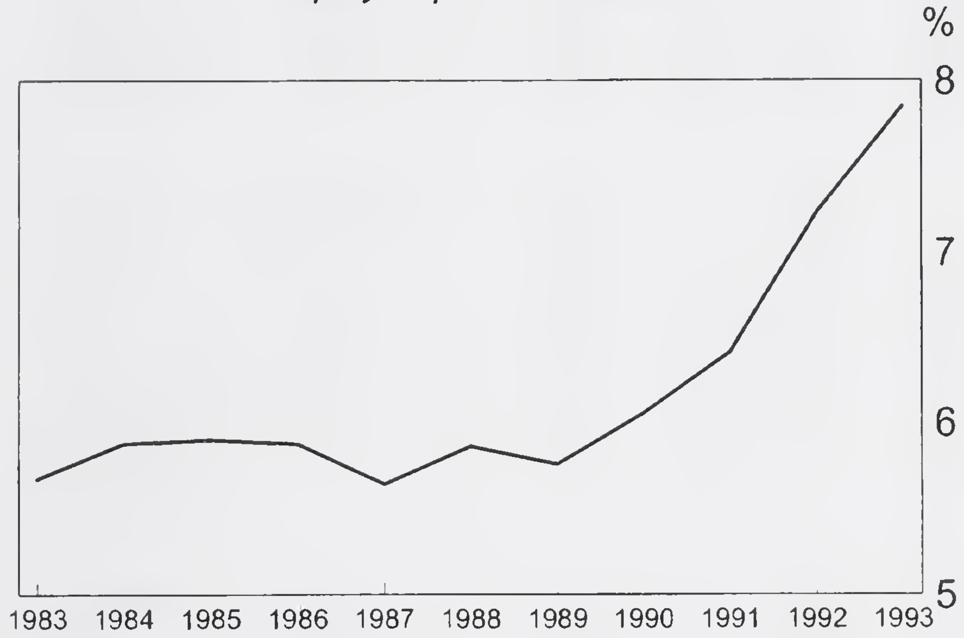


Source: call reports

Capital Ratios Rose Again

National banks used their strong earnings to continue to build capital in 1993. Total equity capital rose by $19.9 billion in 1993 to $165.0 billion, increasing the ratio of equity capital to assets to 7.85 percent from 7.23 percent. Regulatory capital ratios also improved in 1993, as the aggregate risk-based capital ratio rose to 12.55 percent from 11.57 percent, and the aggregate leverage ratio increased to 7.43 percent from 6.84 percent.

Equity capital to assets



Source: call reports

Richard Nisenson
Regulatory and Statistical Analysis

Aggregate performance data for national banks
(Data through fourth quarter of each year)

	1988	1989	1990	1991	1992	1993
Industry Structure						
Number of banks	4,344	4,175	3,978	3,789	3,599	3,321
Number of banks with losses	767	649	616	510	274	162
Number of failed/assisted banks	89	111	96	44	34	23
Income Statement ($ Billions)						
Year-to-Date:						
Net income	13.62	10.47	7.40	8.98	17.39	25.69
Net interest income	64.19	67.31	67.62	70.84	76.64	80.26
Noninterest income	27.72	32.86	34.84	36.55	39.96	45.38
Noninterest expense	61.68	66.31	70.43	74.85	78.06	82.20
Loan loss provision	11.04	18.29	21.00	21.93	15.56	9.28
Securities gains, net	0.06	0.46	0.29	1.84	2.23	1.58
Extraordinary income, net	0.44	0.32	0.28	0.72	0.35	1.63
Net loan loss	12.51	15.05	18.93	21.08	15.80	10.07
Fourth Quarter:						
Net income	3.69	0.03	0.06	2.27	4.41	6.58
Net interest income	18.20	17.09	17.79	18.57	20.38	20.60
Noninterest income	7.40	9.15	9.54	10.05	10.42	12.02
Noninterest expense	16.65	17.70	19.40	20.35	21.09	21.39
Loan loss provision	3.52	7.77	7.48	6.57	3.52	2.09
Securities gains, net	−0.20	0.15	0.16	0.89	0.39	0.16
Extraordinary income, net	0.17	0.01	0.18	0.31	0.10	0.09
Net loan loss	3.49	6.20	5.57	5.70	4.19	2.74
Performance Ratios (%)						
Year-to-Date:						
Return on equity	13.15	9.45	6.40	7.34	13.13	16.87
Return on assets	0.76	0.55	0.38	0.46	0.90	1.28
Net interest margin	3.57	3.53	3.48	3.63	3.97	3.99
Loss provision to loans	0.97	1.49	1.68	1.78	1.33	0.77
Net loan loss to loans	1.10	1.23	1.52	1.71	1.35	0.83
Noncurrent loans to loans	3.04	3.22	4.05	4.09	3.36	2.07
Loss reserves to loans	2.52	2.55	2.68	2.75	2.77	2.49
Loss reserves to noncurrent loans	82.84	79.10	66.02	67.17	82.44	120.19
Loans to assets	64.20	64.36	64.33	62.02	59.55	60.45
Loans to deposits	83.75	84.62	82.04	78.26	77.02	80.57
Equity to assets	5.86	5.75	6.05	6.41	7.23	7.85
Estimated leverage ratio	N/A	N/A	5.73	6.09	6.84	7.43
Estimated risk-based capital ratio	N/A	N/A	9.00	9.98	11.57	12.55

Note: 1993 data are preliminary.
Regulatory and Statistical Analysis

Aggregate condition data for national banks
(Data through fourth quarter of each year)

	1988	*1989*	*1990*	*1991*	*1992*	*1993*
Balance Sheet ($ Billions)						
Assets	1,849.64	1,979.56	1,987.47	1,985.26	2,006.78	2,102 04
Loans	1,187.49	1,274.12	1,278.59	1,231.27	1,195.08	1,270 68
Real estate (RE)	407.86	466.53	502.12	502.92	498.26	527 05
Commercial and industrial (C&I)	375.59	388.29	385.11	347.97	332.38	345.77
Consumer (cnsmr)	236.54	254.82	241.65	237.24	229.06	250.52
Noncurrent loans	36.09	41.01	51.84	50.40	40.11	26.32
Noncurrent RE loans	10.61	15.88	25.28	25.94	23.08	15 88
Noncurrent C&I loans	13.32	13.71	17.08	15.81	11.08	6.09
Noncurrent cnsmr loans	2.74	3.07	0.24	3.51	3.19	2.88
Other real estate owned	6.74	9.22	14.45	17.67	17.16	10.53
Investment securities	275.33	294.48	312.94	360.21	403.84	437.09
Total liabilities	1,741.18	1,865.56	1,867.25	1,858.03	1,861.72	1,937.04
Total deposits	1,417.89	1,505.62	1,558.56	1,573.25	1,551.69	1,557.11
Domestic deposits	1,223.52	1,307.65	1,373.76	1,380.32	1,371.42	1,364.43
Loan loss reserve	29.90	32.44	34.23	33.85	33.06	31.63
Equity capital	108.38	113.92	120.23	127.22	145.06	165.00
Total capital	N/A	N/A	149.43	155.24	173.35	194.56
Balance Sheet Changes ($ Billions)						
Year-to-Date Changes:						
Assets	76.55	129.93	7.91	−2.22	21.53	95.25
Loans	72.16	86.63	4.47	−47.32	−36.19	75.61
Noncurrent loans	−6.00	4.93	10.82	−1.44	−10.29	−13.78
Other real estate owned	0.55	2.48	5.23	3.22	−0.52	−6.63
Investment securities	2.70	19.15	18.46	47.27	43.63	33.25
Total liabilities	68.18	124.38	1.68	−9.22	3.69	75.33
Total deposits	67.16	87.72	52.94	14.69	−21.55	25.42
Loan loss reserve	−2.37	2.55	1.78	−0.37	−0.79	−1.43
Equity capital	8.37	5.55	6.30	6.99	17.84	19.94
Total capital	N/A	N/A	N/A	5.82	18.11	21.21
Fourth Quarter Changes:						
Assets	30.64	56.18	4.65	−10.26	27.28	41.58
Loans	22.84	24.57	−2.11	−7.05	−4.00	33.35
Noncurrent loans	−5.76	−0.01	4.49	−1.96	−4.67	−5.31
Other real estate owned	−1.38	1.23	1.81	0.57	−1.52	−2.52
Investment securities	1.89	2.91	−2.12	16.00	8.86	6.50
Total liabilities	28.42	56.68	4.59	−11.68	23.46	37.38
Total deposits	40.27	58.96	29.97	11.62	27.95	29.75
Loan loss reserve	−2.29	1.70	2.19	0.92	−0.64	−0.92
Equity capital	2.22	−0.51	0.14	1.41	3.83	4.20
Total capital	N/A	N/A	4.45	2.03	4.06	2.20

Note: 1993 data are preliminary.
Regulatory and Statistical Analysis

Aggregate performance data for national banks by size
(Data through fourth quarter of each year)

	Under $100M		*$100M-$1B*		*$1B-$10B*		*Over $10B*		*Total*	
	1992	*1993*	*1992*	*1993*	*1992*	*1993*	*1992*	*1993*	*1992*	*1993*
Indsutry Structure										
Number of banks	2,210	1,993	1,176	1,117	176	174	37	37	3,599	3,321
Number of banks with losses	180	119	71	35	19	8	4	0	274	162
Number of failed/assisted banks	19	18	14	5	1	0	0	0	34	23
Income Statement ($ Billions)										
Year-to-Date										
Net income	1.03	1.08	3.15	3.56	6.11	8.52	7.10	12.53	17.39	25.69
Net interest income	4.29	3.99	12.90	12.27	23.74	25.29	35.70	38.71	76.64	80.26
Noninterest income	1.20	1.24	3.81	4.07	13.60	15.04	21.34	25.02	39.96	45.38
Noninterest expense	3.83	3.67	10.83	10.64	24.24	25.38	39.16	42.51	78.06	82.20
Loan loss provision	0.29	0.15	1.61	0.85	4.78	2.96	8.89	5.33	15.56	9.28
Securities gains, net	0.09	0.06	0.22	0.15	0.60	0.46	1.32	0.91	2.23	1.58
Extraordinary income, net	0.03	0.05	0.01	0.14	0.05	0.17	0.25	1.28	0.35	1.63
Net loan loss	0.28	0.15	1.37	0.76	4.85	3.14	9.30	6.02	15.80	10.07
Fourth Quarter:										
Net income	0.24	0.24	0.73	0.84	1.51	2.37	1.93	3.13	4.41	6.58
Net interest income	1.10	1.01	3.34	3.11	6.09	6.72	9.85	9.75	20.38	20.60
Noninterest income	0.34	1.35	1.00	1.09	3.68	4.07	5.40	6.50	10.42	12.02
Noninterest expense	1.04	1.00	2.91	2.83	6.61	6.74	10.52	10.82	21.09	21.39
Loan loss provision	0.07	0.04	0.41	0.22	1.08	0.58	1.95	1.25	3.52	2.09
Securities gains, net	0.02	0.01	0.03	0.03	0.18	0.04	0.17	0.08	0.39	0.16
Extraordinary income, net	0.01	0.01	0.01	0.02	0.00	0.04	0.09	0.02	0.10	0.09
Net loan loss	0.09	0.05	0.43	0.22	1.28	0.76	2.40	1.71	4.19	2.74
Performance Ratios (%)										
Year-to-Date:										
Return on equity	11.43	11.90	13.45	14.96	15.51	19.20	11.70	16.71	13.13	16.87
Return on assets	1.04	1.15	1.05	1.26	1.09	1.49	0.73	1.18	0.90	1.28
Net interest margin	4.30	4.23	4.30	4.34	4.25	4.42	3.67	3.65	3.97	3.99
Loss provision to loans	0.58	0.31	0.94	0.53	1.43	0.86	1.45	0.81	1.33	0.77
Net loan loss to loans	0.57	0.32	0.80	0.47	1.45	0.91	1.51	0.92	1.35	0.83
Noncurrent loans to loans	1.81	1.44	1.83	1.35	2.59	1.79	4.31	2.45	3.36	2.07
Loss reserves to loans	1.88	1.73	1.99	1.88	3.04	2.63	2.91	2.62	2.77	2.49
Loss reserves to noncurrent loans	104.15	120.11	108.75	139.82	117.39	147.08	67.51	106.85	82.44	120.19
Loans to assets	49.32	50.57	56.90	57.49	58.47	61.06	61.98	61.74	59.55	60.45
Loans to deposits	55.61	57.60	66.26	68.11	75.91	81.95	84.00	86.06	77.02	80.57
Equity to assets	9.27	9.65	8.01	8.65	7.42	7.97	6.68	7.41	7.23	7.85
Estimated leverage ratio	9.21	9.59	7.88	8.51	7.10	7.64	6.16	6.84	6.84	7.43
Estimated risk-based capital ratio	17.74	18.29	13.97	14.89	12.01	12.84	10.45	11.61	11.57	12.55

Note. 1993 data are preliminary. 0.00 indicates an amount of less than $5 million.
Regulatory and Statistical Analysis

Aggregate condition data for national banks by size
(Data through fourth quarter of each year)

	Under $100M		*$100M-$1B*		*$1B-$10B*		*Over $10B*		*Total*	
	1992	*1993*	*1992*	*1993*	*1992*	*1993*	*1992*	*1993*	*1992*	*1993*
Balance Sheet ($ Billions)										
Assets	101.98	95.57	308.08	291.10	573.58	608.66	1,023.13	1,106.71	2,006.78	2,102.04
Loans	50.30	48.33	175.31	167.37	335.37	371.67	634.10	683.31	1,195.08	1,270.68
Real estate (RE)	27.49	26.58	95.04	92.55	132.57	153.99	243.15	253.92	498.26	527.05
Commercial and industrial (C&I)	8.73	8.08	32.09	28.66	79.79	81.02	211.76	228.01	332.38	345.77
Consumer (cnsmr)	8.76	8.25	39.14	37.03	91.69	106.90	89.48	98.35	229.06	250.52
Noncurrent loans	0.91	0.70	3.20	2.25	8.69	6.65	27.30	16.72	40.11	26.32
Noncurrent RE loans	0.47	0.37	1.79	1.31	4.88	3.98	15.94	10.22	23.08	15.88
Noncurrent C&I loans	0.37	0.27	1.06	0.69	2.18	1.27	7.47	3.86	11.08	6.09
Noncurrent cnsmr loans	0.07	0.05	0.29	0.22	1.24	1.14	1.58	1.47	3.19	2.88
Other real estate owned	0.56	0.32	1.64	0.89	3.71	2.00	11.25	7.32	17.16	10.53
Investment securities	35.72	33.85	87.75	88.67	135.21	146.35	145.16	168.22	403.84	437.09
Total liabilities	92.53	86.35	283.40	265.92	531.05	560.12	954.74	1,024.66	1,861.72	1,937.04
Total deposits	90.45	83.90	264.57	245.72	441.79	453.53	754.88	793.95	1,551.69	1,577.11
Domestic deposits	90.45	83.89	264.28	245.40	434.45	445.70	582.24	589.44	1,371.42	1,364.43
Loan loss reserve	0.95	0.84	3.48	3.15	10.20	9.77	18.43	17.87	33.06	31.63
Equity capital	9.45	9.23	24.68	25.18	42.53	48.54	68.40	82.05	145.06	165.00
Total capital	10.01	9.75	26.57	26.70	46.80	53.59	89.97	104.52	173.35	194.56
Balance Sheet Changes ($ Billions)										
Year-to-Date Changes:										
Assets	–5.88	–6.41	0.03	–16.98	–38.33	35.08	65.71	83.58	21.53	95.26
Loans	–3.45	–1.97	–3.51	–7.94	–44.40	36.30	15.17	49.21	–36.19	75.61
Noncurrent loans	–0.20	–0.21	–0.68	–0.95	–4.12	–2.04	–5.29	–10.58	–10.29	–13.78
Other real estate owned	–0.14	–0.24	–0.23	–0.75	–1.68	–1.71	1.53	–3.92	–0.52	–6.63
Investment securities	–0.89	–1.86	6.20	0.92	11.99	11.13	26.33	23.06	43.63	33.25
Total liabilities	–5.83	–6.18	–1.29	–17.48	–40.47	29.07	51.28	69.92	3.69	75.33
Total deposits	–5.51	–6.55	–0.92	–18.84	–35.89	11.74	20.77	39.07	–21.55	25.42
Loan loss reserve	–0.09	–0.11	0.04	–0.33	–0.80	–0.42	0.06	–0.56	–0.79	–1.43
Equity capital	–0.06	–0.23	1.33	0.50	2.14	6.00	14.43	13.66	17.84	19.94
Total capital	–0.21	–0.26	1.11	0.13	1.43	6.78	15.79	14.55	18.11	21.21
Fourth Quarter Changes:										
Assets	–1.08	–0.73	–0.02	–8.20	–15.39	20.90	43.78	29.61	27.28	41.58
Loans	–1.60	–0.66	–4.08	–5.92	–19.02	20.46	20.70	19.47	–4.00	33.35
Noncurrent loans	–0.10	–0.09	–0.51	–0.48	–1.78	–1.10	–2.29	–3.65	–4.67	–5.31
Other real estate owned	–0.05	–0.06	–0.11	–0.21	–0.88	–0.57	–0.48	–1.67	–1.52	–2.52
Investment securities	–0.64	–0.25	–0.19	–0.06	–3.45	1.68	13.13	5.13	8.86	6.50
Total liabilities	–0.80	–0.50	0.38	–7.51	–13.95	19.21	37.82	26.17	23.46	37.38
Total deposits	–0.64	–0.57	0.86	–5.61	–8.33	10.82	36.06	25.11	27.95	29.75
Loan loss reserve	–0.04	–0.03	–0.13	–0.24	–0.57	–0.38	0.10	–0.26	–0.64	–0.92
Equity capital	–0.28	–0.23	–0.40	–0.69	–1.44	1.69	5.96	3.44	3.83	4.20
Total capital	–0.35	–0.26	–0.62	–1.10	–2.35	1.21	7.38	2.35	4.06	2.20

Note: 1993 data are preliminary. 0.00 indicates an amount of less than $5 million.
Regulatory and Statistical Analysis

Aggregate performance data for national banks by region
(Data through fourth quarter of 1993)

	Northeastern	*Southeastern*	*Central*	*Midwestern*	*Southwestern*	*Western*	*Total*
Industry Structure							
Number of banks	370	470	699	585	780	417	3,321
Number of banks with losses	19	22	17	13	23	68	162
Number of failed/assisted banks	3	2	1	2	6	9	23
Income Statement ($ Billions)							
Year-to-Date:							
Net income	7.41	4.09	4.73	2.25	2.73	4.47	25.69
Net interest income	24.47	13.35	13.90	5.66	7.24	15.64	80.26
Noninterest income	16.34	5.73	6.25	4.53	3.43	9.10	45.38
Noninterest expense	28.07	12.39	12.52	6.17	7.55	15.50	82.20
Loan loss provision	4.24	0.95	1.37	0.69	0.04	2.01	9.28
Securities gains, net	0.84	0.19	0.28	0.08	0.12	0.07	1.58
Extraordinary income, net	0.85	0.06	0.13	0.04	0.51	0.04	1.63
Net loan loss	4.89	0.89	1.20	0.62	0.26	2.22	10.07
Fourth Quarter:							
Net income	1.94	0.98	1.20	0.65	0.54	1.26	6.58
Net interest income	5.96	3.42	3.72	1.56	1.99	3.94	20.60
Noninterest income	4.27	1.54	1.63	1.21	0.95	2.42	12.02
Noninterest expense	6.87	3.34	3.37	1.68	2.23	3.91	21.39
Loan loss provision	0.96	0.18	0.33	0.15	0.02	0.44	2.09
Securities gains, net	0.02	0.01	0.06	0.03	0.02	0.01	0.16
Extraordinary income, net	0.00	0.00	0.01	0.03	0.04	0.01	0.09
Net loan loss	1.39	0.25	0.33	0.16	0.09	0.51	2.74
Performance Ratios (%)							
Year-to-Date:							
Return on equity	15.96	16.15	17.63	20.70	19.10	15.71	16.87
Return on assets	1.12	1.17	1.38	1.66	1.45	1.34	1.28
Net interest margin	3.71	3.83	4.06	4.18	3.83	4.68	3.99
Loss provision to loans	1.06	0.46	0.67	0.86	0.04	0.88	0.77
Net loan loss to loans	1.23	0.43	0.58	0.77	0.28	0.97	0.83
Noncurrent loans to loans	2.88	1.34	1.33	1.35	1.11	2.68	2.07
Loss reserves to loans	2.89	1.94	2.02	2.00	1.82	3.20	2.49
Loss reserves to noncurrent loans	100.41	144.38	151.59	148.01	164.22	119.31	120.19
Loans to assets	60.48	59.79	60.32	60.81	49.62	67.51	60.45
Loans to deposits	83.34	81.44	80.56	81.96	60.68	86.27	80.57
Equity to assets	7.49	7.43	8.01	8.03	7.92	8.74	7.85
Estimated leverage ratio	7.25	7.16	7.80	7.77	7.28	7.62	7.43
Estimated risk-based capital ratio	12.43	11.93	12.52	13.15	13.53	12.71	12.55

Note: 1993 data are preliminary. 0.00 indicates an amount of less than $5 million.
Regulatory and Statistical Analysis

Aggregate condition data for national banks by region
(Data through fourth quarter of 1993)

	Northeastern	*Southeastern*	*Central*	*Midwestern*	*Southwestern*	*Western*	*Total*
Balance Sheet ($ Billions)							
Assets	690.92	365.65	359.10	142.92	202.32	341.12	2,102.04
Loans	417.84	218.62	216.63	86.90	100.38	230.31	1,270.68
Real estate (RE)	155.53	107.65	85.31	33.03	42.81	102.72	527.05
Commercial and industrial (C&I)	130.46	52.58	60.42	19.17	28.12	55.03	345.77
Consumer (cnsmr)	73.41	40.97	49.69	23.03	19.19	44.21	250.52
Noncurrent loans	12.04	2.94	2.89	1.18	1.11	6.17	26.32
Noncurrent RE loans	7.15	1.98	1.46	0.42	0.63	4.23	15.88
Noncurrent C&I loans	2.62	0.68	0.90	0.33	0.34	1.22	6.09
Noncurrent cnsmr loans	1.49	0.19	0.34	0.34	0.10	0.43	2.88
Other real estate owned	6.17	1.26	0.91	0.25	0.60	1.33	10.53
Investment securities	124.17	86.81	74.05	34.52	66.67	50.88	437.09
Total liabilities	639.17	338.47	330.34	131.45	186.29	311.32	1,937.04
Total deposits	501.36	268.42	268.89	106.03	165.44	266.97	1,577.11
Domestic deposits	346.45	257.52	249.42	104.99	163.79	242.26	1,364.43
Loan loss reserve	12.09	4.24	4.38	1.74	1.83	7.36	31.63
Equity capital	51.75	27.18	28.76	11.47	16.03	29.80	165.00
Total capital	65.60	30.15	34.67	12.69	16.35	35.09	194.56
Balance Sheet Changes ($ Billions)							
Year-to-Date Changes:							
Assets	13.31	37.03	23.46	5.68	5.65	10.14	95.26
Loans	11.77	26.92	17.00	8.31	8.58	3.03	75.61
Noncurrent loans	−8.07	−0.85	−0.88	−0.08	−0.65	−3.25	−13.78
Other real estate owned	−2.28	−0.68	−0.65	−0.14	−0.50	−2.37	−6.63
Investment securities	6.50	10.73	4.21	−0.43	5.04	7.20	33.25
Total liabilities	6.32	33.21	20.45	5.04	3.01	7.29	75.33
Total deposits	−3.72	17.78	9.83	0.09	0.10	1.34	25.42
Loan loss reserve	−1.38	0.24	0.30	0.05	−0.38	−0.26	−1.43
Equity capital	6.99	3.81	3.00	0.64	2.65	2.85	19.94
Total capital	6.40	4.15	4.28	0.86	1.84	3.67	21.21
Fourth Quarter Changes:							
Assets	4.67	21.79	6.95	3.08	0.78	4.31	41.58
Loans	2.67	14.30	5.85	3.49	2.42	4.68	33.35
Noncurrent loans	−3.46	−0.45	−0.46	−0.12	−0.25	−0.56	−5.31
Other real estate owned	−0.80	−0.17	−0.17	−0.06	−0.12	−1.20	−2.52
Investment securities	2.22	4.17	0.46	−0.72	0.09	0.28	6.50
Total liabilities	2.49	20.61	6.63	2.89	0.81	3.94	37.38
Total deposits	−1.66	16.22	6.56	2.72	3.34	2.57	29.75
Loan loss reserve	−0.79	0.08	0.00	−0.01	−0.09	−0.10	−0.92
Equity capital	2.18	1.17	0.33	0.19	−0.03	0.37	4.20
Total capital	0.75	1.09	0.17	−0.02	−0.16	0.36	2.20

Note: 1993 data are preliminary. 0.00 indicates an amount of less than $5 million.
Regulatory and Statistical Analysis

Glossary

Definitions

Commercial Real Estate Loans: Loans secured by nonfarm, nonresidential properties.

Construction Loans: Loans for construction and land development.

Extraordinary Income, Net: Net after-tax income from events and transactions that are "unusual and infrequent."

Failed/Assisted Banks: National banks that have been closed by, or have received financial assistance from, the Federal Deposit Insurance Corporation (FDIC).

Investment Securities: Total securities excluding those held in trading accounts.

Leverage Ratio: Ratio of estimated Tier 1 capital to estimated tangible total assets.

Loans: Total loans and leases less unearned income.

Net Loan Losses: Total loans and leases charged off (removed from balance sheet because of uncollectibility) during the period, less amounts recovered on loans and leases previously charged off.

Loan Loss Reserve: The allowance for loan and lease losses.

National Banks: Nationally chartered commercial banks, trust companies without deposits, nonbank banks, and credit card banks in the United States and its territories that are insured by either the Bank Insurance Fund or the Savings Association Insurance Fund of the FDIC and filed a call report.

Noncurrent Loans: The sum of loans and leases 90 days or more past due plus nonaccrual loans.

Net Interest Margin: Net interest income as a percent of average assets.

Regions: Northeastern (NE) — Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Puerto Rico, Rhode Island, Vermont, Virgin Islands; Southeastern (SE) — Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia, West Virginia; Central (CE) — Illinois, Indiana, Kentucky, Michigan, Ohio, Wisconsin; Midwestern (MW) — Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota; Southwestern (SW) — Arkansas, Louisiana, New Mexico, Oklahoma, Texas; Western (WE) — Alaska, Arizona, California, Colorado, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming. Each bank in a multinational bank holding company is included in the region in which the bank is located.

Other Real Estate Owned (OREO): Real estate acquired by a bank for debts previously contracted (i.e., foreclosed real estate). Also includes property formerly used or intended for use for banking purposes.

Residential Real Estate: Loans secured by one- to four-family residential properties plus loans secured by multifamily (five or more) residential properties.

Risk-based Capital Ratio: Ratio of estimated total capital to estimated risk-weighted assets.

Securities Gains: Net pre-tax realized gains (losses) on securities not held in trading accounts.

Total Capital: The sum of Tier 1 and Tier 2 capital reported on call report schedule RC-R.

Computation Methodology

Current quarter income statement items were calculated by summing the difference between the year-to-date and previous quarter numbers of each item for all banks that filed a current quarter call report. For performance ratios constructed by dividing an income statement (flow) item by a balance sheet (stock) item, the income statement item for the period was annualized (multiplied by the number of periods in a year) and the average of the balance sheet item for the period (beginning-of-period amount plus end-of-period amount divided by two) was used.

Comptroller's Report of Operations — 1993

Comptroller

The Comptroller's Office examines and supervises approximately 3,300 federally chartered national banks through a nationwide staff of bank examiners and other professional and support personnel. National banks represent about 30 percent of all commercial banks and about 57 percent of the total assets of the banking system. The Comptroller's Office also supervises federally licensed branches and agencies of foreign banks.

The Comptroller serves as a member of the board of the Federal Deposit Insurance Corporation (FDIC), a member of the Federal Financial Institutions Examination Council (FFIEC), and a member of the board of the Neighborhood Reinvestment Corporation (NRC).

Advice to the Comptroller is provided by a senior management group consisting of two Senior Policy Advisors, the Chief Counsel, and five Senior Deputy Comptrollers representing Bank Supervision Operations, Bank Supervision Policy, Economic Analysis and Public Affairs, Corporate Activities and Policy Analysis, and Administration.

The Comptroller's personal staff directs, coordinates, and manages the day-to-day operations of the office. The staff also oversees projects of special interest to the Comptroller and serves as liaison with OCC staff and the staffs of other regulatory agencies.

Senior Policy Advisors to the Comptroller

There are currently two Senior Policy Advisors to the Comptroller. Each oversees a variety of supervisory projects, drawing upon staff and expertise from throughout the OCC. For example, one advisor established the OCC's Derivatives Task Force, which produced an issuance on risk management of financial derivatives and continues to develop supervisory guidance in this area. During 1993, projects managed by the Senior Policy Advisors included the development of supervisory policies on bank mutual fund activities and work on a proposed rulemaking for bank recourse transactions. In addition, the Senior Policy Advisors spearheaded efforts to enhance bank supervision by cataloging the products offered by national banks and evaluating the risk of each and designing a new system for supervising large banks' ability to manage risk. Other projects include an analysis of bank supervision in the United States compared with other countries and an assessment of national bank activities in less developed economies. In addition to managing special projects, one of the Senior Policy Advisors is responsible for administering the OCC's Equal Employment Opportunity programs.

Senior Deputy Comptroller for Bank Supervision Policy

The Senior Deputy Comptroller for Bank Supervision Policy formulates and implements policies and procedures applying to national banks and national bank examiners in both the safety and soundness and compliance areas. The department also oversees OCC supervision and regulation of federal branches and agencies and conducts analyses of international banking issues. These responsibilities are conducted in the offices of the Chief National Bank Examiner, the Deputy Comptroller for Compliance Management, and the Deputy Comptroller for International Banking and Finance. The Senior Deputy Comptroller for Bank Supervision Policy also coordinates OCC participation in FFIEC activities and task forces and represents the OCC on the international Basle Committee on Banking Supervision.

Senior Deputy Comptroller for Bank Supervision Operations

The Senior Deputy Comptroller for Bank Supervision Operations oversees the six district offices, the Multinational Banking Department, and the Special Supervision Division. The senior deputy formulates and implements a broad range of policies relating to OCC's district offices and the multinational banking program. Specific responsibilities include directing programs for the examination and regulation of national banks to promote the continuing existence of a solvent and competitive national banking system. The Senior Deputy Comptroller for Bank Supervision Operations is also responsible for directing the examination, super-

vision, and analysis of multinational and regional banks, including their international banking activities.

Senior Deputy Comptroller for Economic Analysis and Public Affairs

The Senior Deputy Comptroller for Economic Analysis and Public Affairs advises the Comptroller on external relations with the media, the banking industry, Congress, consumer and community development groups, other governmental agencies, and the public. The senior deputy also oversees the agency's economic research and analysis program and provides policy advice on issues relating to community development. The following divisions and departments report to the Senior Deputy Comptroller for Economic Analysis and Public Affairs: Banking Relations, Communications, Community Development, Congressional Relations, Economic and Policy Analysis, and Public Affairs.

Senior Deputy Comptroller for Corporate Activities and Policy Analysis

The Senior Deputy Comptroller for Corporate Activities and Policy Analysis advises the Comptroller on policy matters and oversees the OCC's corporate activities area. The senior deputy has the Comptroller's delegated authority for deciding all corporate applications, including charters, mergers and acquisitions, conversions, and operating subsidiaries of national banks, and responsibility for establishing corporate policies. These responsibilities are carried out through Bank Organization and Structure and the corporate areas in each of the OCC's six districts and in Multinational Banking.

Chief Counsel

The Chief Counsel advises the Comptroller on legal matters arising from the administration of laws, rulings, and regulations governing national banks. The Chief Counsel directs the legal functions in and for the OCC. These duties involve writing and interpreting legislation; responding to requests for interpretations of statutes, regulations, and rulings; defending the Comptroller's actions challenged in administrative and judicial proceedings; supporting the bank supervisory efforts of the office; and representing the OCC in all legal matters. These duties are carried out through the Litigation; Enforcement and Compliance; Securities, Investments, and Fiduciary Practices; Legislative, Regulatory, and International Activities; Corporate Organization and Resolutions; and Bank Operations and Assets Divisions and through an organization of counsels in the OCC's six districts.

Senior Deputy Comptroller for Administration

The Senior Deputy Comptroller for Administration is responsible for the efficient and effective administrative functioning of the OCC. Through the Deputy Comptroller for Resource Management, the senior deputy supervises the Human Resources, Training and Performance Development, and Administrative Services Divisions. Through the Deputy Comptroller for Information Resources Management, the senior deputy supervises the Applications Development, Systems Support, Supervisory Research, and Information Systems Coordination Divisions. Through the Chief Financial Officer, the senior deputy supervises Financial Services. The Management Improvement and Quality Improvement Divisions are supervised directly by the senior deputy. Washington office units provide staff assistance and guidance to district administrative functions.

Chief National Bank Examiner

The Chief National Bank Examiner's Office (CNBE) is the focal point for OCC policy governing the safety and soundness of the national banking system. It initiates policy changes related to emerging issues affecting bank examinations and chairs the Supervision Policy Committee, a forum through which these policies are developed.

The office recently reorganized into four groups: credit and management policy, capital markets, examination processes, and the chief accountant's office:

- The *credit and management policy* group provides field examiner support and policy direction on bank lending activities, including the allowance for loan and lease losses and real estate appraisals, and various other assets such as bank-owned insurance, bank premises, and management processes.

- The *capital markets* group provides policy direction on issues such as derivative products, securitization, mortgage-backed securities, mortgage banking, bank sales of nondeposit investment products, intangible assets, interest rate risk, and risk-based capital.

- The *examination processes* group establishes agency examination policies and report of examination standards; provides policy direction for bank information systems; coordinates OCC supervision policy issuances and publications; administers the uniform commission examination; and administers the OCC's mainframe computer supervisory information systems and supervisory data.

- The *chief accountant's office* coordinates accounting and reporting issues; interprets regulatory accounting and generally accepted accounting principles related to bank examination; identifies emerging accounting issues; and develops new accounting principles. The group also administers the financial information requirements of the Securities Exchange Act of 1934 applicable to national banks under 12 CFR 11 and 16, including registration statements, offering circulars, and merger proxy statements.

The CNBE coordinates OCC supervision policy issuances and publications. This includes updates to the *Comptroller's Handbook for National Bank Examiners*, supervision policy issuances, and the Bank Accounting Advisory Series, which presents staff views on accounting topics. The CNBE includes all supervisory issuances and publications on CD-ROM, which is available to the public on a subscription basis through a vendor.

The CNBE also provides training support by developing advanced courses for identified OCC experts in fields such as capital markets, credit, and bank information systems. In 1993, the CNBE hosted conferences for credit and capital markets experts and an accounting workshop. CNBE staff also develops the technical content of selected supervision and accounting courses and serves as instructors at training seminars. Three uniform commission examinations were conducted in 1993 to identify examiners for commissioning as national bank examiners.

The CNBE coordinates OCC participation in the FFIEC including support of the Comptroller as a member of the FFIEC, and the Senior Deputy Comptroller for Bank Supervision Policy as a member of the FFIEC Task Force on Supervision. The CNBE also participates in other FFIEC task forces including the Appraisal Subcommittee, and provides staff to develop the technical content and serve as instructors for FFIEC training seminars.

During 1993, the CNBE oversaw the implementation of regulations required by the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA). Proposed or final regulations were issued in the following areas:

- independent and annual audits (section 112),
- safety and soundness standards (section 132),
- real estate lending standards (section 304), and
- interest rate risk (section 305).

In 1993, the CNBE supported OCC initiatives to reduce the regulatory burden on banks. The other real estate owned (OREO) regulation was revised, and revisions to the appraisal regulation were proposed. CNBE staff, in conjunction with OCC legal staff, also began a review of other regulations (for example, lending limits) for possible revision. During 1993, the OCC, jointly with other financial regulatory agencies, developed a uniform format for the report of examination. The OCC

implemented the new examination report on January 1, 1994.

Initiatives to reduce regulatory burden were also coupled with various efforts to enhance credit availability. An interagency policy statement encouraging lending to small business and exempting a portion of a bank's loan portfolio from regulatory criticism was issued in March. The CNBE, in concert with other financial regulatory agencies, clarified the definitions for special mention, nonaccrual assets, and insubstance foreclosure credits. Relief from various regulatory requirements (e.g., appraisals, call reports) was provided to national banks in federally declared disaster areas.

In 1993, the CNBE also issued guidance to national banks on the allowance for loan and lease losses (ALLL), real estate appraisal guidelines, interbank liabilities, and bank sales of mutual funds and other nondeposit investment products. The CNBE also participated in the development of guidance for risk management of financial derivatives and provided guidance to national banks for mortgage banking activities.

The CNBE monitored and commented on accounting pronouncements developed by the Financial Accounting Standards Board with respect to accounting for impaired loans and debt and equity securities (FAS 114 and 115). The CNBE has also provided accounting and reporting guidance under new accounting standards for income taxes (FAS 109) and debt and equity securities.

The CNBE works with other financial entities such as the American Bankers Association and the American Institute of Certified Public Accountants. It provides speakers and participants on panels at banking and accounting conferences. The chief accountant's staff also participates on certain Financial Accounting Standards Board task forces, such as the task force on financial instruments.

Compliance Management

The Compliance Management Department is responsible for the OCC's compliance supervision and examination policies. Compliance is an integral part of the OCC's supervision of national banks. Compliance Management oversees the following areas of bank operations: fiduciary activities; the Community Reinvestment Act (CRA); consumer protection laws and regulations; fair lending laws, principally the Equal Credit Opportunity Act and the Fair Housing Act; and the Bank Secrecy Act (BSA). The Compliance Management Department also employs several fair lending specialists.

Compliance Management participates in the FFIEC's trust supervision/capital committee and the FFIEC's consumer compliance task force and its subcommittees responsible for the CRA, the Home Mortgage Disclosure Act (HMDA), and enforcement issues. These interagency task forces are designed to ensure that the financial institution regulatory agencies uniformly implement compliance with consumer and fiduciary laws.

In the fall of 1993, the OCC instituted a new compliance program that calls for more frequent compliance examinations in national banks. Under the program, all banks will be examined for consumer compliance and fiduciary compliance at least once every other year. This includes examination for fair lending and the Community Reinvestment Act (CRA).

In addition, the program calls for enhanced training in compliance areas for all examination levels, a dedicated cadre of commissioned examiners to perform compliance work in large banks and multinationals, and development of a new process for commissioning examiners that takes compliance into account.

Overseeing the program at the district level are designated directors for compliance and specialty managers. This new compliance process is the result of over two years of research and development by the Compliance Management and Training and Performance Development Departments.

In 1993, Compliance Management participated in an interagency revision of questions and answers about the CRA. Prepared by the FFIEC's CRA subcommittee of the consumer compliance task force, these revisions stressed the importance of lending activities as a CRA assessment factor, rather than the amount of documentation maintained by an institution. The CRA subcommittee also considered issues related to state-chartered institutions; the criteria used to determine how a director's, officer's, or employee's outside activities contribute to an institution's CRA performance; and amendments to the CRA required by FDICIA.

In 1993, the OCC conducted CRA performance evaluations of 979 national banks. The Communications Department maintains a public file of the CRA performance evaluations of these national banks as well as other national banks examined previously. In 1993, 154 national banks received an "outstanding" evaluation, 740 received a "satisfactory" rating, 83 were rated as "needs to improve," and 2 national banks were in "substantial noncompliance" with the CRA.

In 1993, the OCC issued Interim Procedures for Examining for Racial and Ethnic Discrimination in Residential

Lending. The procedures focus on mortgage underwriting. Although these procedures are applicable to all prohibited bases and loan products, the initial objective was to help the OCC determine whether racial disparities in denial rates for residential mortgage products in particular national banks were due to legitimate underwriting considerations or illegal discrimination. Other fair lending activities included the referral of 65 cases to HUD pursuant to a memorandum of understanding between HUD and OCC. OCC also made four referrals to the Department of Justice and two referrals to HUD regarding cases of apparent disparate treatment found during fair lending examinations.

Compliance Management also developed over 130 bulletins, circulars, and advisories sent to national banks and examiners dealing with topics such as Regulation Z (Truth in Lending), Rule of 78s, Community Reinvestment Act (CRA), Home Mortgage Disclosure Act (HMDA), Real Estate Settlement Procedures Act (RESPA), Housing Counseling Program, Regulation DD (Truth in Savings), Fair Housing Home Loan Data System, Fair Lending, Bank Secrecy Act (BSA), and a software program for calculating the annual percentage yield for Regulation DD.

In 1993, the Compliance Management Department's fiduciary activities included continued work on a regulatory proposal relating to collective investment funds. Guidance on other trust issues was provided through rulings on:

- purchases of bonds by a bank when it participates in the underwriting syndicate;

- audit procedures for national bank trust departments;

- short-term investment fund purchases of variable rate government securities;

- application of the regulations relating to conflicts of interest to dividend investment plans;

- collective investment funds for investment of school district operating funds; and

- collective investments for pre-need investment trusts.

The department also supplied instructors to OCC courses on proposed revisions to fair lending examination procedures and facilitated attendance by OCC staff for training on the new compliance program.

International Banking and Finance

The International Banking and Finance Department (IB&F) oversees OCC supervision of the federal branches and agencies of foreign banks in the United States and maintains OCC relationships with the international financial community and foreign supervisory organizations. The department provides policy advice and technical expertise and analyses to OCC on international banking and financial matters, including foreign regulatory trends, country risk evaluation, and the evolution of foreign financial institutions.

IB&F represents the OCC on interagency projects affecting international banking supervision policy and regulation. In 1993, these activities included:

- Cooperating with federal and state bank supervisors on specific initiatives in the supervision, licensing, and regulation of foreign banks operating in the United States.

- Providing technical advice for the financial services provisions of the North American Free Trade Agreement (NAFTA) and the Uruguay Round of the General Agreement on Tariff and Trade (GATT).

- Launching, with Treasury Department International Affairs staff, the 1994 National Treatment Study on conditions of access to key foreign markets for United States financial institutions.

- Implementing the international banking sections of FDICIA, including provisions on examinations and licensing for United States operations of foreign banks and communications with foreign bank supervisory authorities.

- Working with Treasury and the Federal Reserve Board, and negotiating with foreign supervisory organizations, to eliminate local capital-based limitations imposed on branches of United States banks in several European Union countries.

IB&F oversees the OCC's Federal Branch Program, which supervises, licenses, and regulates federal branches and agencies of foreign banks in the United States. In that regard, IB&F provides policy and procedural support and guidance to the OCC districts supervising federal branches and agencies. The department also serves as the focal point for information on foreign banks that operate federal branches and agencies and coordinates communications with those banks' supervisory authorities and their senior management.

In its role as staff coordinator of OCC's participation in the Basle Committee on Banking Supervision, IB&F works with other OCC groups in support of U.S. efforts to achieve international bank regulatory and supervisory harmonization. The department also conducts research on international economic and bank supervision matters and supports OCC examiners and other staff engaged in domestic and international supervisory activities, as well as assisting in the development and implementation of OCC banking supervisory and regulatory policies.

IB&F also develops, analyzes, and distributes information on the global banking and financial environment in which national banks operate; the banking, financial, and supervisory systems in the major countries of the world; and foreign banks that operate federal branches and agencies in the United States. As the OCC representative on the Interagency Country Exposure Review Committee (ICERC) of U.S. bank regulatory agencies, IB&F develops and analyzes information on and assesses risk in international lending, including the evaluation of transfer risk associated with exposures to countries experiencing difficulty servicing their external debt. Through IB&F, the OCC provides the permanent ICERC secretariat and rotates as Chair of the ICERC every third year.

IB&F personnel meet with foreign supervisory authorities to exchange information, resolve issues, and coordinate requests for data, background materials, training, and other technical advice. IB&F serves as the liaison with the Treasury Department, the International Monetary Fund, the International Bank for Reconstruction and Development (World Bank), and other external sources for formal programs to provide technical bank supervisory assistance to foreign governments. IB&F also helps prepare congressional testimony, furnishes staff for seminars and conferences related to international banking and supervisory issues, participates in overseas missions with international financial institutions, and assists in OCC examinations of the overseas operations of national banks.

Multinational Banking

The Multinational Banking Department supervises all national banks owned by the following companies: BankAmerica Corporation, Bank of Boston Corporation, BancOne Corporation, Chase Manhattan Corporation, Citicorp, First Chicago Corporation, NationsBank Corporation, First Union Corporation, and Wells Fargo Corporation. As of December 31, 1993, the national banks supervised by Multinational Banking held total assets of about $891 billion, representing 43 percent of the national banking system's total assets. The department also supervises severely troubled regional bank companies with national bank subsidiaries, oversees OCC's international examining activities and administers the Shared National Credit and Large Bank Programs.

The department's supervisory philosophy is to assess each bank's risk profile and ensure that the level of risk undertaken by that bank is appropriate and managed effectively. Examinations are conducted in accordance with the requirements of the Federal Deposit Insurance Corporation Improvement Act of 1991, which requires full-scope examinations of all national banks annually. Areas covered during examinations include global operations, asset quality, capital adequacy, management, earnings, capital markets activities, and adequacy of bank information systems. The department works closely with the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Office of Thrift Supervision to coordinate major interagency examination efforts.

The Multinational Banking Department's examination and supervision efforts are ongoing and, as much as practicable, anticipatory. Field examiners are permanently assigned to each multinational lead bank to promote communication and thereby enhance the OCC's ability to promptly identify and address emerging issues and risks. Washington-based employees maintain continuous dialogue with these field examiners to ensure that examinations identify risks and are proceeding as planned. This ongoing communication also allows the department to keep OCC management informed of significant events affecting the assigned institutions.

Examination strategies are developed annually for each of the multinational companies and revised or updated as necessary. These strategies are ongoing and relate closely to economic factors and financial marketplace developments. A critical element of the department's examination strategy is to maintain strong, consistent, and frequent communication with bank management, market participants, and industry analysts.

The department's Large Bank Program provides the framework for supervising all regional banking companies, defined as those with assets over $5 billion. The program provides guidelines to ensure consistent and efficient supervision of all large national banks and provides a forum for addressing emerging issues or potential systemic risks.

The Shared National Credit Program is an interagency program designed to review and assess risk in many of the largest and most complex credits shared by multiple financial institutions. A shared national credit is defined as any loan or formal loan commitment aggregating $20 million or more, extended to a borrower by a supervised institution or any of its subsidiaries and affiliates. The credit must be shared by two or more institutions under a formal lending agreement, or a portion of the loan could be sold to one or more institutions with the purchasing institution assuming its pro rata share of the credit risk. The program's objectives are to provide uniform treatment of the entire credit, consistent classification, and efficient risk analysis.

Special Supervision

The Special Supervision Division (SPSU) supervises national banks in the most critical condition, monitors failing banks, coordinates bank closings, and helps determine OCC policy for the examination and enforcement of problem banks. In 1993, SPSU continued to represent the OCC on interagency working groups formed to implement provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 relating to problem institutions. SPSU staff participated in working groups responsible for drafting the regulations on prompt corrective action, failing bank resolutions, discount window advances, brokered deposits, FDIC back-up enforcement authority, capital standards, and payment system risks. SPSU is also represented on an in-house task force to update OCC policy regarding concentrations of credit.

SPSU is the focal point for managing most critical bank situations in which potential for failure is high. An anticipatory approach is used in resolving these critical

bank situations. The division deals with each bank individually, employing the enforcement and administrative tools best suited to that bank's problems. SPSU approves the scope of examination activities, holds meetings with management and boards of directors, reviews related corporate applications, and processes reports of examination and correspondence for these banks. SPSU also helps problem banks to identify all possible sources of outside capital. In 1993, these recapitalization efforts helped several banks avoid failure.

SPSU also provides general advice and guidance on problem bank issues to district offices and other OCC units and develops examination strategies to enhance OCC's relationship with problem banks.

Economic and Policy Analysis

Economic and Policy Analysis comprises three divisions: Economics and Evaluation, Regulatory and Statistical Analysis, and Bank Research. The department provides policy analysis and advice on a variety of issues facing the OCC; monitors the financial health of the banking system to identify possible sources of systemic risk; analyzes the determinants of bank competitiveness and risk-taking; evaluates the effects on OCC operations of changes in the structure of the banking industry and in the regulatory environment; drafts Congressional testimony for the Comptroller; and develops the OCC's priority objectives.

Economics and Evaluation

The Economics and Evaluation Division (E&E) helps develop and explain major OCC public policy positions. It advises senior OCC officials about the regulation and operation of the financial services industry and develops proposals to address policy issues raised by other agencies, Congress, and the public. E&E also provides analytical assistance and advice on economic issues to other OCC divisions.

In 1993, E&E drafted 15 statements that the Comptroller and Acting Comptroller delivered at Congressional hearings, compiled related briefing materials, and assisted in briefing the Comptroller or Acting Comptroller before appearances at committee hearings. Testimony topics last year for which E&E provided support included regulatory burden, credit availability, CRA, fair lending, interstate banking, and bank use of derivative financial instruments.

E&E staff provided technical and analytical support to a number of projects. For example, through its participation on the OCC Derivatives Task Force, E&E assisted in the development of an issuance specifying the criteria under which the OCC will evaluate participation in derivative markets by national banks, both as dealers and as end-users.

E&E staff support of other OCC initiatives focussed principally on various aspects of the Credit Availability Program (CAP). Working closely with staff in Bank Supervision Policy, E&E helped develop a method for assessing the reporting burden OCC imposes on national banks, which included a survey sent to OCC Districts and Multinational and a database management system for compiling survey responses. E&E staff helped assess the impact of CAP on bank lending by examining traditional sources of information such as the call report and nontraditional sources such as surveys conducted by small business trade organizations. Staff periodically prepared for senior OCC management memorandums on the CAP that incorporated data from those sources.

Throughout 1993, E&E staff supported OCC operations with analyses of significant trends and developments in financial markets. These analyses covered such topics as the relationship between bank mergers and cost efficiencies; the distribution of bank products and services based on location of branch bank offices; the impact of risk-based capital requirements on the assumption of risk by banks; the effect of bank failures on the availability of small business credit in local markets; and the potential effect of a deeper secondary market for bank loans on the availability of credit.

Regulatory and Statistical Analysis

The Regulatory and Statistical Analysis Division (R&SA) reports on the condition of the banking system, analyzes trends affecting the condition of banks, and assesses the risks and returns of major banking activities. R&SA also provides support for OCC regulatory policy initiatives, including revisions to capital requirements.

The division produces annual reports on the condition of commercial banks that are provided to OCC offices, other agencies, Congressional committees, and the general public. The 1993 annual report highlighted the dramatic increase in bank earnings, improvements in capitalization and credit quality, and the continuing shift in bank portfolio composition, as securities holdings continued to grow steadily.

The division also produces regular reports on the condition of national banks. Quarterly reports on the condition of national banks are issued as press releases and published in the *Quarterly Journal*. In 1993, R&SA completed four such reports covering the last quarter of 1992 through the third quarter of 1993. These reports highlighted an increase in the volume of loans outstanding (reversing a three-year decline), record earnings, and continuing improvements in credit quality and capitalization.

To analyze trends affecting the condition and performance of banks, R&SA also continued to maintain

regular contact with the OCC's district systemic risk analysts. In 1993, R&SA hosted a meeting of these analysts to discuss policy developments and economic issues affecting national banks in the OCC's districts.

R&SA provided analytic support to OCC regulatory policy initiatives to revise the risk-based capital requirements, develop capital requirements related to banks' interest rate risk, and develop examination procedures to test for discrimination in mortgage lending. In 1993, R&SA assisted in the development of proposals to revise the capital treatment of recourse arrangements, the risk-weights for collateralized transactions, and the capital requirement for multifamily lending. R&SA staff also began an analysis of alternative approaches to the measurement and regulation of interest rate risk and began work on the development of a statistical model intended to detect discrimination in mortgage landing.

Bank Research

The Bank Research Division (BRD) undertakes applied long- and short-term research projects that focus on bank competitiveness and risk-taking, as well as related developments in financial markets and the regulatory and supervisory strategies for dealing with these developments.

Since its formation in June 1993, BRD has produced work on a variety of topics. These include studies of bank efficiency, the operations of foreign banks in the United States, consolidation trends in the banking industry and their impact on concentration and competition, alternative statistical early warning and supervisory models, the role of information disclosure in market discipline, deposit insurance issues such as methods of projecting the costs of resolving failed banks, and the possible sources and magnitude of systemic risk and strategies to contain it.

The results of these research efforts have been used in internal OCC briefings of the Comptroller, senior management, and staff; congressional testimony; agency responses to congressional and administration requests; publications in the OCC working paper series; articles for external publication; and speeches and presentations to academic and professional organizations.

Public Affairs

The Public Affairs Department provides information and publications services. Public information services include issuing press releases, responding to press inquiries, answering general inquiries about the agency's mission, and handling requests filed under the Freedom of Information and Privacy Acts. The department's publication services include editing and producing ongoing OCC publications such as the *Quarterly Journal*, the *Comptroller's Manual for National Banks*, the *Comptroller's Manual for Corporate Activities*, and the *Comptroller's Handbook for Compliance*, and editing and disseminating OCC policy issuances such as advisory letters and banking bulletins.

The Deputy Comptroller for Public Affairs, as liaison between the Comptroller and the press, organizes press briefings, responds to requests from the press for interviews with the Comptroller and senior management, and provides explanations of OCC initiatives and proposals. The department serves as the main point of contact for outsiders other than banks and projects the OCC's mission and activities to the public, particularly the news media. The department takes calls from the media throughout the day and usually provides a response the same day to meet daily press deadlines. The department also prepares news releases on significant OCC actions including submissions to the *Federal Register* and bank failures. The department tracks securities filings of publicly held national banks and maintains a central file of OCC enforcement actions.

The department's publications personnel provide editorial and writing assistance to other OCC units and work with external contract printers to publish official OCC publications. New publications for 1993 included *An Examiner's Guide to Consumer Compliance* and the brochure *Deposits and Investments: There's a Critical Difference*. The department also produces internal publications such as *SuperVisions*, a monthly employee newsletter, and distributes OCC issuances and other policy papers to national bank examiners and national banks.

Under the authority delegated by the Comptroller, the department is responsible for making initial determinations on requests for records of the OCC under the Freedom of Information Act and the Privacy Act of 1974. In 1993, the department processed 3,341 such requests. These requests are made for any and all documents in the OCC's files; response is required within 10 business days.

Banking Relations

The Banking Relations Division acts as liaison with bankers, state bankers, associations, banking trade groups, and state bank supervisors.

The division provides advice to the Comptroller and senior policymakers and is responsible for identifying proposed regulatory and industry actions that relate to OCC activities. It formulates specific approaches for

ensuring that OCC's position is presented and that information is disseminated.

The division recommends new policies, concepts, and procedures to guide the OCC in its relationship with the banking industry. It prepares and directs the preparation of briefing materials for use in meetings with OCC officials and banking industry groups. It also assists with preparation of testimony or presentations for the Comptroller and senior officials.

The division maintains state-by-state in-depth analyses of banking legislation and major issues including existing, proposed, and potential legislation.

Community Development

The Community Development Division (CDD) provides policy guidance to the OCC on community development issues that affect national banks, their customers, and bank community and consumer organizations. The division develops OCC initiatives related to the creation of affordable housing for low- and moderate-income persons, the provision of technical assistance and financing for small, minority, and women-owned businesses, and the economic redevelopment of low- and moderate-income areas.

In February 1993, the CDD published the *1992 National Bank Community Development Survey Report*. This report publicized the findings of the OCC's 1992 National Bank Community Development Survey, which was used to research the types of community development activities in which national banks participate. The report was introduced to the banking community through a press release and two briefings attended by bank trade associations and bank customer groups. It was distributed to more than 7,500 national banks, community representatives, and other interested parties.

The CDD continued to publish its quarterly newsletter, *Community Developments*, designed to provide national banks and other interested persons with highlights of innovative bank community development programs, regulatory updates on community issues, and news of federal and state programs that might be of interest to national banks. Over 1,400 bankers, community representatives, and others are subscribers.

More than 1,400 copies of the OCC videotape *National Bank Partnerships for Community Development* were distributed to national banks, community development organizations, and other interested parties in 1993. The videotape, developed by the CDD, examines four community development partnerships that help meet financing needs for low- and moderate-income housing development and small and minority-owned businesses. The videotape describes how four banks of different asset size, located in diverse communities, have used partnerships with state and local governments, local community development organizations, local affiliates of organizations such as the Neighborhood Reinvestment Corporation, and other banks to improve their community development efforts. Accompanying the videotape was the OCC publication *Community Development Finance: Tools and Techniques for National Banks*. This publication describes the different tools available to banks to provide community development lending to their communities.

The videotape on national bank partnerships is a companion piece to a 1991 tape titled *Community Development Corporation and Investment Program: National Banks Investing in the Future*, which described how banks can complement their traditional lending activities by investing in community development corporations and community development projects. In 1993, approximately 50 copies of the earlier videotape were distributed.

In 1993, more than 5,000 copies of a publication summarizing the proceedings of a CDD-sponsored conference, *Building Healthy Communities through Bank Small Business Financing*, were distributed to national banks, community groups, and others. The conference, which was held in the fall of 1992, focused on current issues in small business finance. It presented the customer, banker, and regulator perspectives on ways to enhance small business financing.

The CDD continued to be the lead unit responsible for sharing information with consumer, community, small business, national intermediary, government, and housing groups. The CDD arranged seven informal monthly meetings with representatives of more than 40 groups with the Comptroller and senior OCC staff. These meetings provided the opportunity for frank dialogue between the OCC and bank customer groups and created a forum to discuss important issues. In addition to the monthly meetings, the CDD provided the national bank customer groups with information through mailings and briefings. Through small meetings, informal contacts, and speaking engagements, the CDD continued to obtain the views of these groups and advise OCC policymakers on matters affecting consumers and communities. The CDD also responded to approximately 165 inquiries from bank customer groups and national banks on issues involving community development lending, fair housing, and the Community Reinvestment Act (CRA).

The CDD provided support to a number of working groups in the OCC as well as serving on interagency

working groups. CDD staff worked with other OCC staff in scheduling witnesses for three of the seven hearings on CRA reform held throughout the country last summer. CDD staff attended four of these hearings and provided ongoing support to senior OCC staff in developing language for the proposed CRA rule. CDD staff continued to participate on the OCC working groups responsible for implementing the branch closing requirements, bank enterprise provisions of FDICIA, and risk-based capital. CDD staff also participated on the OCC working group set up to develop a "tester" program to help identify fair lending violations in national banks. CDD staff participated on the Interagency Affordable Housing Task Force and subgroups. In other interagency activities, the CDD continued to participate in the Securities and Exchange Commission's Government-Business Forum on Small Business Capital Formation, with CDD's director serving on the executive committee. CDD staff also participated on the Section 308 Interagency Working Group that explored ways to increase the number of minority-owned financial institutions and support their development.

In 1993, the CDD was responsible for the development of a final rule amending regulations concerning national bank investments in community development corporations (CDCs) and community development projects (CD projects). The rule (12 CFR 24) became effective December 31, 1993. It permits national banks that meet certain criteria to make most CDC and CD-project investments using a brief self-certification notice of compliance with the rule. CDC and CD-project investments are equity and special debt investments that banks provide to organizations whose primary purpose is to serve the public welfare. These investments supplement a bank's regular and creative lending and investing programs to help meet credit, investment, or other community needs of low- and moderate-income persons or small businesses, including minority-owned small businesses.

The CDD approved 160 national bank investments in community development corporations and community development projects in 1993. Of this total, 97 new CDCs and CD projects were approved. In addition, 63 national bank investments were made in several previously approved community development corporations and projects. CDCs and CD projects approved during the year represented national bank investment of approximately $298.1 million, compared with $70.6 million for 1992. The division also responded to about 400 inquiries from national banks and local community development leaders on opportunities available under the CDC&I program. The CDD also continued to publish an annual directory of all CDCs and CD projects approved by the OCC.

In 1993, the division continued to support the Comptroller in his capacity as a statutory member of the board of directors and vice chairman of the Neighborhood Reinvestment Corporation. The division also served as OCC liaison for the Department of Treasury Consumer Affairs Council.

Congressional Liaison

The Congressional Liaison Division is responsible for the OCC's relations with members of Congress, congressional committees, subcommittees, and staff.

The division provides analysis and advice to the Comptroller and senior OCC policymakers on congressional activities that affect or could affect the OCC, the national banking system, or the financial services marketplace. It also offers guidance on potential congressional reaction to OCC actions.

As part of its responsibilities, the division maintains regular contact with congressional members, committees, subcommittees, and staff to promote effective communication and ensure that OCC's interests are represented.

The division is the focal point of congressional inquiries, including requests for testimony, staff studies, or other support. It assists in the preparation of testimony, comments, briefings, and staff studies relating to congressional actions, as well as responses to constituent inquiries. The division provides any other necessary liaison and information services relating to congressional and legislative matters.

Bank Organization and Structure

Bank Organization and Structure establishes policies affecting the corporate activities of national banks. It reviews individual and national bank applications to engage in bank activities requiring OCC headquarters approval, monitors and provides advice about the most significant applications, and strives to maintain effective quality control and information systems that support licensing operations.

The number of applications filed with the OCC increased by 25 percent in calendar 1993. Branch and automated teller applications made up the bulk of this increase.

New charter applications, de novo charters plus conversions, declined slightly during the year. Of the 18 de novo charter applications, 10 were for full-service national banks. Six of the 10 full-service banks were sponsored by independent groups and 4 were sponsored by holding companies. The remaining applications were for trust and credit card banks. Of the 21 charter applications decided in 1993, 20 were approved and 1 was denied.

Merger and corporate reorganization applications also increased in 1993, primarily due to a 27 percent increase in reorganization filings. The OCC also approved 45 acquisitions of failing national banks during the year.

OCC's district offices generally have been delegated authority to decide, consistent with established policies, those applications that do not raise significant issues. District offices decided 95 percent of all the applications that were decided in 1993. Consistent with previous years, almost all of these cases were approved.

The accompanying table summarizes the types of corporate applications filed with the OCC and their disposition.

Licensing Policy and Systems

The Licensing Policy and Systems Division develops and implements general policies and procedures for the corporate activities operations of the OCC. The division also coordinates the OCC's licensing quality control program and oversees the Licensing Information System, a computerized system for monitoring corporate operations.

Significant projects during 1993 included:

1993 Corporate Applications

Application Type	*Received 1992*	*Received 1993*	*Districts Approved*	*Districts Denied*	*Washington Approved*	*Washington Denied*	*Total Decisions*
Branches	584	860	836	0	11	1	848
Change in Control	34	28	16	0	5	5	26
CBCTs	1,317	1,957	2,003	0	20	1	2,024
Capital	381	217	179	2	89	1	271
Charters	20	18	9	0	11	1	21
Conversions	19	18	8	0	5	0	13
Corporate Reorgs	197	251	215	0	22	0	237
Federal Branches	2	0	0	0	0	0	0
Fiduciary Powers	26	20	13	1	2	0	16
Mergers	184	188	146	0	20	0	166
Operating Subs./BSC	139	137	100	0	28	0	128
Relocations	289	320	296	0	16	0	312
Stock Appraisals	3	1	0	0	0	0	0
Total	3,195	4,015	3,821	3	229	9	4,062

Note: The table does not include applications that were filed with other agencies, but reviewed and commented on by the OCC as required by the Bank Merger and Bank Holding Company Acts and in accordance with interagency procedures for administering the Change in Bank Control Act.

- With the OTS, FDIC, and Federal Reserve, development of an interagency policy statement requiring banks and thrifts to give the affected customers and the public notice before closing a branch.

- Participation in OCC working groups dealing with insurance operations of national banks, national banks sale of nondeposit investment products, the operations of national bank subsidiaries in the derivatives markets, national banks that may not qualify for FDIC insurance, and revision of the management interlocks act.

- Advising OCC policymakers on issues involving the CRA, fair lending, interstate branching and banking, and unusual applications for charters, operating subsidiaries, branches, and other proposed transactions.

- Monitoring and reporting on conversions of national banks to state charters and vice versa, bank applications protested on CRA grounds or conditioned on CRA improvements, and the acquisition of thrifts by national banks.

- Drafting of a complete revision to the regulation governing corporate filings, 12 CFR 5, to elimi-

nate unnecessary burdens and constraints on prompt review of and action on applications.

- Implemention of streamlined procedures for approving applications for various services during major disasters, for messenger services that banks operated before a change in interpretation, and for short-duration branches on Oklahoma university campuses.
- Working with the OTS, FDIC, and Federal Reserve to develop uniform interagency forms for filings under the Change in Bank Control Act and for filing biographical and financial information required by the agencies about certain prospective executive officers and directors of new or troubled banks and thrifts.
- Development of a new computer-based system, the Corporate Activities Information System, for tracking and monitoring corporate operations, to replace the Licensing Information System.

The division also continued to monitor corporate activities operations through the Licensing Information System and comprehensive quality control program. Data from the Licensing Information System is used to produce the OCC's *Weekly Bulletin*, a compilation of corporate applications involving national banks, as well as summary tables for the *Quarterly Journal*, and other statistical summaries of the OCC's corporate activities operations. Under the quality control program, the OCC's corporate activities operations were also reviewed in district offices and in the Multinational Banking Department in Washington. The division also conducted a targeted review of merger application processing.

Corporate Activity

The Corporate Activity Division coordinates all corporate applications processed in the OCC's districts and headquarters. The applications are processed according to 12 CFR 5, the *Comptroller's Manual for National Banks*, and the *Comptroller's Manual for Corporate Activities*. These applications involve new bank charters, consolidations and mergers, corporate reorganizations, conversions of state banks to national charters, operating subsidiaries, branches, customer-bank communication terminals (CBCTs), head office and branch relocations, capital changes, and federal branches and agencies of foreign banks. The division evaluates and processes notices of change in controlling ownership of national banks and requests for exceptions filed under the Depository Institutions Management Interlocks Act. Upon request from shareholders dissenting to a merger, consolidation, or conversion involving national banks, the division also conducts appraisals of bank stocks.

The division also provides recommendations to OCC's senior management with respect to the disposition of applications not delegated to the district offices.

The Corporate Activity Division contributes summaries of selected corporate decisions to every issue of the *Quarterly Journal*. In 1993, the following corporate decisions were of particular importance because they were precedent setting or otherwise represented issues of importance.

The OCC conditionally approved an application filed by a national bank to establish an operating subsidiary to facilitate a reorganization to eliminate the bank's holding company. The structuring plan is to merge the holding company into the operating subsidiary and subsequently dissolve the operating subsidiary. In its conditional approval, the OCC imposed the following requirements on the applicant: the holding company must divest all assets ineligible for investment by a national bank before its merger into the operating subsidiary; the holding company must incur all costs of the proposed transaction; the transaction must in no way reduce the total capital position of the bank; the holding company must provide the OCC with a list of continent liabilities; and an offering circular to the bank's shareholders seeking approval of the transaction must be submitted to the OCC for review.

The OCC conditionally approved a notice filed by a national bank to expand the activities of an existing operating subsidiary to include acting as the sole general partner of an additional limited partnership. The additional limited partnership would originate and hold loans to developers for the acquisition, development, and construction of residential housing. The approval was subject to the following conditions: the aggregate investment in the subsidiary must not exceed $15 million; the subsidiary must be managed in a manner to minimize the risk of "piercing the corporate veil" under relevant state law; the partnership venture must be subject to OCC examination and supervision; and the bank must maintain and make available to OCC examiners current information on the subsidiary's activities as a general partner.

A national bank was granted conditional approval to acquire a state-chartered trust company in another state and operate it as an operating subsidiary. In its conditional approval, the OCC required the bank to receive approval for the acquisition of the trust company from the State Banking Department where the trust company was located. The OCC also required the

bank to ensure that the subsidiary's operations are conducted in such a manner as to qualify for exemption from status as a "bank" under the Bank Holding Company Act. In addition to several other technical conditions, the OCC required the bank to receive OCC approval before any ownership changes are made involving the trust company.

The OCC did not disapprove two change in bank control notices involving two uninsured national trust companies. The notices were filed by a company that owns 31 investment advisory and related subsidiaries with total assets under management in excess of $70 billion. Although two of the subsidiaries conduct underwriting activities, the gross revenues of these two subsidiaries comprise barely one percent of the company's total revenues. As a result, the OCC concluded that the securities activities are de minimis and thus the company's ownership of the trust companies would not violate the Glass-Steagall Act.

The OCC conditionally approved eight Competitive Equality Banking Act of 1987 (CEBA) credit card bank applications. The OCC conditioned the approvals upon the banks obtaining and maintaining status as "insured depository institutions" and notifying the OCC of any action initiated to terminate the banks' status as insured depository institutions.

The OCC approved proposals from national banks in California, New Mexico, and Connecticut to provide mobile branching/CBCT branching services to their customers. These approvals were the first for these states.

The OCC conditionally approved a notice filed by a national bank to establish an operating subsidiary to participate in a joint venture partnership with a subsidiary of a major brokerage firm. The joint venture proposed to market a full range of investment products, including securities and annuities, in the bank's branches. The proposal represented the first time that a large bank would join forces with a major brokerage firm to offer investment products to customers on a retail basis. The OCC imposed conditions on the approval to address certain supervisory concerns and to require extensive disclosures to ensure that customers are adequately informed of the uninsured status of the investment products.

The OCC approved a branch application filed by a national bank to establish a branch with the understanding that its right to establish the branch would be sold to an affiliated national bank, which also filed a branch application. The branch banking law for the state had been recently amended to allow one de novo branch to be established per bank before 1997. However, there was no limit on the number of branches that a bank can establish through purchase or merger. The State Superintendent of Banks informed the holding company that the sale of approved but unopened branch is acceptable under state law and that the branch will not be considered a de novo branch of the acquiring bank. The OCC approved the branch applications after concluding that there were no supervisory or legal concerns and that each bank's performance under CRA was satisfactory.

The OCC approved a notice from a national bank to establish an operating subsidiary for the purpose of conducting lending activities. The bank filed the notice to take advantage of a provision in state law that allows state banks to operate subsidiaries that engage in the business of granting loans and the disbursement of loan proceeds without geographic restrictions. Because the OCC considers lending to be a core banking function, the bank also filed and received approval on a required branch application. The approval noted that the bank must obtain the prior approval of the OCC before it expands the activities of the operating subsidiary beyond lending. In response to the state banking commissioner threatening to sue the OCC if it approved a branch at the site of the operating subsidiary, the OCC noted in its decision document that it had found that national banks may branch to the same extent as state-chartered thrifts in the state, which are allowed to branch statewide. The threat of suit on this proposal became moot when the state established statewide branching on June 7, 1993.

The OCC approved a request by a national bank to relocate nine branches to ATM sites. As a result of the bank's merger with an affiliate, several branches of the resulting bank were in close proximity to one another. If the redundant branches were closed, the bank would not be able to reestablish the branches until unlimited branching became effective in 1997. Thus, the bank would preserve its current number of branch approvals through this proposal. At some future date, the bank proposes to relocate the branches to different sites.

The OCC approved a full service charter application sponsored by a discount brokerage firm operating in 39 states, to service its customers and the general public. No banking lobby or teller facilities will be available at the headquarters' site and all transactions will be via telephone or mail. The bank will specialize in home equity loans, consumer deposits, and other types of consumer services. No commercial services will be offered. Legal questions were raised and satisfactorily resolved regarding the Glass-Steagall Act, branching, and anti-tying provisions of 12 U.S.C. 1972(1). The bank applied for FDIC insurance and its parent applied to the Federal Reserve to become a bank holding company.

The OCC approved a notice filed by a national bank to expand the activities of its existing subsidiary to offer securities services from offices located in unaffiliated banks. The OCC had previously approved such activities for the bank and its affiliates. This was the first proposal involving the sale of retail nondeposit investment products since Banking Circular 274 (guidance on bank sales of investment products) was issued. The approval letter contained specific reference to BC 274 and stated OCC's expectations that the operating subsidiary would adhere to the circular's requirements.

The OCC approved the conversion of federal thrift to a national bank. The converting thrift had a grandfathered branch in an adjacent county. Both the OCC and the state banking department concluded that the retention of the branch was permissible even though intercounty branching was prohibited.

The OCC approved a precedential corporate reorganization when it granted approval for a national bank to merge with a bank in liquidation. The OCC concluded that it is legally permissible for a bank in liquidation to participate in a merger.

The OCC conditionally approved an application from a holding company to establish a new national bank whose activities would be limited to second mortgage home equity lending. The activities were currently being conducted in an operating subsidiary of the lead bank, but once the new bank was opened, they would be transferred to the new bank. One area of concern with the proposal was how the bank would meet its obligations under the Community Reinvestment Act (CRA). The OCC concluded that since the proposed bank's local delineated community was the same as the lead bank, some reliance could and should be placed on the CRA activities of the lead bank and holding company. The approval was made conditional on the bank receiving and maintaining FDIC insurance and certain other standard conditions applicable to limited purpose national banks.

The OCC granted approval for a retail company to acquire a troubled national bank and convert the bank into a Competitive Equality Banking Act (CEBA) credit card bank after the change of control occurred. To meet with the requirements under CEBA and avoid being considered a bank holding company, the company entered into a purchase and assumption (P&A) agreement with another national bank, whereby the other bank would acquire all of the ineligible deposits and all but $1 million of the ineligible assets. The remaining $1 million in assets would be sold to affiliates of the acquiring company. The P&A and sale of assets to the affiliates would allow the bank to meet CEBA requirements. The Federal Reserve reviewed the proposed transaction and provided a written statement that the acquiring company would not be considered a bank holding company.

The OCC disapproved a notice for change in bank control, because of the applicant's failure to provide requested information. Despite repeated requests, the applicant refused to supply all the information needed to complete an evaluation of the notice, and to resolve inconsistencies in information received from the applicant.

The OCC denied a change in bank control notice filed by a group of individuals to acquire a 5-rated national bank. The denial was based upon the acquiring group's lack of banking experience, as exhibited by a business plan that would not be viable for this severely troubled bank, and inadequate documentation by some of the acquirers to support their financial capacity to purchase the stock or secure financing. The OCC concluded that it would not be in the best interest of depositors, the public, or the Bank Insurance Fund to approve the notice.

The OCC denied a change in bank control notice filed by a group of individuals to acquire a 5-rated national bank. The group did not have the necessary banking experience to return this severely troubled institution to sound financial condition, nor did they propose new management to be promptly brought in to operate the bank on their behalf. The OCC concluded that it would not be in the best interests of depositors, the public, or the Bank Insurance Fund to approve the notice. The bank was closed in mid-April 1993.

The OCC disapproved a change in bank control notice because the applicant had failed to disclose that the bank he owned and operated as president was under investigation by the Drug Enforcement Administration and other agencies for money laundering. The applicant's failure to disclose this information reflected negatively on his integrity and raised questions about the appropriateness of his ownership of a national bank.

In 1993, the Law Department participated actively in advancing the Comptroller's priority initiatives, including the credit availability program, CRA reform, new fair lending bank examination guidelines, and a top-to-bottom review of all of the OCC's regulations. Substantial interpretive and advisory work was also undertaken relating to the interstate operations of national banks and bank sales of uninsured investment products, including annuities and mutual funds. In addition, the department worked on significant litigation, particularly in the insurance and annuities area.

A second deputy chief counsel was hired in 1993 to manage the agency's legislative and regulatory efforts, particularly the Comptroller's regulatory review project. The department also established the Special Counsel Program, a new hiring program designed to attract one or two persons at a time whose academic credentials and experience — in the private or public sector — can provide a perspective that might otherwise not be available. The first Special Counsel used his consumer compliance law expertise to assume an active role in the development of the agency's initiatives relating to CRA and fair lending.

Building on its 1992 reorganization, the Law Department took further steps in 1993 to enhance its support for the OCC's international functions by establishing the position of Counselor for International Activities. The counselor is the focal point for legal issues relating to foreign banks' operations in the United States, U.S. banks' operations abroad, and legal issues arising in multilateral and bilateral supervisory contexts. In 1993, the counselor coordinated the Law Department's efforts on internationally related issues, provided legal advice on issues relating to cooperation with bank supervisors of other countries, and worked with the Federal Reserve Board on implementation of the Foreign Bank Supervision Enhancement Act of 1991.

Litigation

The Litigation Division represents the OCC in court. During 1993, the courts handed down a number of significant judicial decisions involving the OCC. These decisions concerned insurance activities, corporate organization and structure, and disclosure of confidential information. In addition, significant litigation is pending concerning the OCC's authority to appoint receivers for failed national banks.

Insurance Activities

Several decisions handed down during 1993 concerned the authority of national banks to engage in the sale of insurance products.

Town of Under 5,000 Insurance Litigation. On June 7, 1993, the United States Supreme Court, reversing the U.S. Court of Appeals for the District of Columbia Circuit, held unanimously that 12 U.S.C. 92 continues to exist. *Independent Insurance Agents of America v. U.S. Nat'l Bank and Ludwig*, 955 F.2d 731 (D.C. Cir. 1992). Section 92 authorizes any national bank located in a town of fewer that 5,000 inhabitants to sell insurance generally as an agent. In holding that Section 92 still exists, the Supreme Court resolved a conflict between the D.C. Circuit (which held that Section 92 was part of Revised Statutes, Section 5202, and was repealed in 1918) and the Second Circuit in *American Land Title Ass'n v. Chase Manhattan Bank and Clarke*, 968 F.2d 150 (2d Cir. 1992) (which held that Section 92 was enacted as an amendment to Section 13 of the Federal Reserve Act of 1913 and was not repealed in 1918). The case was remanded to the D.C. Circuit for a decision on the scope of insurance agency activities that Section 92 actually authorizes. On July 16, the D.C. Circuit panel held unanimously that the Comptroller's interpretation of 12 U.S.C. 92, as imposing no geographic restriction on a national bank's general insurance agency activities from a town of under 5,000 in population, is permissible. Plaintiff failed to file a timely petition for review of the D.C. Circuit's July 16 decision, and a request for an extension of time was denied.

Title Insurance Litigation. On June 14, 1993, the Supreme Court denied certiorari review of the Second Circuit's decision in *American Land Title Ass'n v. Chase Manhattan Bank v. Ludwig, sub nom. Chase Manhattan Bank, N.A. v. American Land Title Ass'n*, 125 L. Ed. 2d 660, that section 92 prohibits national banks from selling title insurance from a town of *over* 5,000 in population. The Second Circuit held that Section 92 prohibits by implication any insurance activity by national banks not expressly authorized by Section 92, including selling title insurance from towns over 5,000 in population. The case is now back before the district court, which will decide on the contents of the order against Chase Manhattan Bank and the OCC.

Other Pending Section 92 Litigation. In *Variable Annuity Life Insurance Company v. Clarke*, 993 F.2d 1295 (5th

Cir. 1993), reh'g denied sub nom. Variable Annuity Life Insurance Co. v. Ludwig, No. 92-2010 (5th Cir. Jan. 13, 1994), a panel of the Fifth Circuit held that national banks have authority to sell, as agent, variable and fixed rate annuities only in towns of fewer than 5,000 persons. The panel held that: (1) because annuities are sold by insurance companies and regulated under state insurance law, annuities are insurance products and not banking products; (2) Section 92 limits the authority of national banks to sell insurance; and (3) the authority of national banks under Section 24 (Seventh) to engage in activities incidental to banking only applies to those activities necessary to banking. On January 13, 1994, the Fifth Circuit denied the OCC's motion for rehearing by the entire circuit. Seven of the thirteen judges on active duty had to approve a rehearing; six were recused, four favored rehearing, and three (the original panel) opposed rehearing. In a dissent, the judges favoring rehearing suggested that: (1) the OCC's finding that annuities are not insurance should receive deference; (2) several cases have found that annuities are not insurance for certain purposes; and (3) even if the OCC received no deference, at least some annuities may not be insurance products for purposes of Section 92. Pending in the Sixth Circuit is *Owensboro National Bank v. Moore,* Nos. 92-6220 and 93-6331, which has been fully briefed and is now awaiting oral argument. The district court in *Owensboro* held that state law cannot bar a national bank from exercising its Section 92 insurance powers.

Corporate Organization and Structure

Other decisions handed down during 1993 addressed the OCC's authority to approve cash-out mergers and main office relocations across state lines.

Nodak Bancorporation v. Clarke, et al. On July 7, 1993, the U.S. Court of Appeals for the Eighth Circuit, in a 2-1 decision, reversed the district court and held that 12 U.S.C. 215a did not prohibit the OCC from approving a cash-out merger. 998 F.2d 1416. A cash-out merger is a merger in which the minority shareholders of an acquired bank are forced to accept cash in exchange for their shares while majority shareholders have the option of accepting shares of the resulting bank. Inasmuch as the Eleventh Circuit in *Lewis v. Clarke,* 911 F.2d 1558 (11th Cir. 1990) reached the opposite result, there is now a split in the circuits.

State of Idaho v. Ludwig and Board of Governors of the Federal Reserve System. On June 4, 1993, the U.S. Court of Appeals for the Ninth Circuit, affirming the district court below, held that the OCC had authority under 12 U.S.C. 30 to approve a main office relocation across state lines by a national bank subsidiary of a bank holding company. 994 F.2d 1441. The proposed relocation was from Spokane, Washington to Coeur D'Alene, Idaho, less than 30 miles away. On June 17, the State of Idaho filed with the Ninth Circuit a petition for rehearing with a suggestion for rehearing en banc. Thus far, the Ninth Circuit has not requested a response from the OCC and the Board of Governors.

Disclosure of Confidential Information

Numerous private sector litigants seek OCC documents for use in litigation under 12 CFR 4.19. Several decisions in 1993 will likely have a significant impact on the OCC's ability to protect confidential documents.

Fairfield v. Houston Business Journal. On September 9, 1993, the Southern District of Texas held that the OCC's withholding of certain confidential documents was not arbitrary and capricious. In response to defendant's request for OCC documents, the OCC provided some nonpublic documents but withheld many other requested documents. Defendant challenged the OCC's decision under the Administrative Procedure Act, claiming that it was arbitrary and capricious to withhold the documents. The court upheld the OCC's decision, based largely on the OCC's willingness to provide some documents and the defendant's decision not to issue a subpoena. This case has been appealed to the Fifth Circuit, where the parties are briefing the case.

Bogart v. National Community Banks, Inc. On November 5, 1993, the court ordered the OCC and the Board of Governors of the Federal Reserve System to produce all purely factual material and all nonprivileged, nonfactual material described in the plaintiff's subpoena. In addition, the court ordered production for in camera inspection all documents for which the OCC and the Board continued to assert privilege.

Schreiber v. Society for Savings. On December 28, 1993, the District of Columbia Circuit found that the district court had improperly found examination reports of the Board of Governors of the Federal Reserve System and the FDIC to be privileged by relying solely on a conclusory affidavit. The court held that in camera inspection or a "nonconclusory" affidavit would be necessary to determine whether the bank examination privilege would apply to documents. Although this case involves documents generated by the Board and FDIC, and not the OCC, the court's rationale would also apply to OCC documents.

Appointment of Receivers

Two cases pending in district courts challenge the OCC's appointment of receivers. *James Madison Limited v. Ludwig,* currently pending in the District for the District of Columbia, alleges that the OCC improper-

ly declared insolvent Madison National Bank and Madison National Bank of Virginia. *Garner v. OCC,* currently pending in the Central District of California, alleges among other things that the OCC improperly appointed a receiver for the purportedly solvent American Commerce National Bank.

Other Activities of the Litigation Division

In addition to representing the OCC in court, the Litigation Division also drafts administrative decisions for the Comptroller's signature and represents the OCC in administrative litigation before the Equal Employment Opportunity Commission, the Merit Systems Protection Board, and the General Services Board of Contract Appeals. Most significantly, in 1993 the Merit Systems Protection Board found that the OCC properly discharged an employee engaged in sexual harassment of another OCC employee.

Enforcement and Compliance

The Enforcement and Compliance Division (E&C), in conjunction with the districts, recommends administrative actions and presents and litigates these actions on behalf of the OCC in administrative proceedings. The division may also help defend these actions if they are challenged in United States courts of appeals. E&C also handles challenges to temporary cease and desist orders and suspensions which have been filed in district court. The division also supports criminal law enforcement agencies and provides advice on enforcement and compliance issues to senior OCC officials.

During 1993, the OCC issued 53 commitment letters, 34 memoranda of understanding, 63 formal agreements, 34 cease and desist orders, 36 removals, and 127 civil money penalties (CMPs). E&C handled nondelegated actions, while the OCC's districts handled delegated actions. In its administrative cases, the division held numerous prehearing conferences and conducted three administrative hearings.

During May and August of 1993, an administrative hearing was held on a cease and desist proceeding against the First National Bank of Bellaire (Bellaire), Bellaire, Texas, the Mayde Creek Bank (Mayde Creek), Katy, Texas, and Texas National Bank (Baytown), Baytown, Texas. The OCC charged that Bellaire, Mayde Creek, and Baytown have been engaging in various unsafe and unsound practices primarily involving: (1) undue concentrations of credit; (2) lack of adequate supervision by management or the board of directors; and (3) incomplete and inaccurate books and records. In addition, the banks were also charged with several violations of laws and regulations including those relating to the national bank lending limit, 12 U.S.C. 84. Most of the alleged violations arose from extensions of credit by the banks to two individuals and their numerous closely-held corporations that allegedly exceeded twice the banks' capital and, with respect to one of the banks, exceeded three times the bank's capital. The matter is currently pending before an administrative law judge.

In August 1993, an administrative hearing was held regarding the OCC's action against Augustus I. Cavallari, former counsel to the Summit National Bank, Torrington, Connecticut. The OCC has charged Cavallari with violations of temporary and permanent cease and desist orders, unsafe and unsound practices, and breaches of fiduciary duty arising from his role in restructuring certain insider-related loans that resulted in a loss to the bank of approximately $600,000. The OCC is seeking to remove Cavallari from banking, assess a CMP of $250,000 against him and obtain restitution of approximately $600,000. The matter is currently pending before an administrative law judge.

In early September and late October of 1993, an administrative hearing was held regarding the OCC's cease and desist action against the First National Bank of Chicago, Chicago, Illinois. The OCC charged the bank with violations of 12 CFR 9, breaches of its fiduciary duties, and unsafe and unsound banking practices. The alleged violations stem from the bank's continuing failure to honor the withdrawal requests of participants in Real Estate Collective Investment Fund F within the one-year time frame required by 12 CFR 9.18, the regulation governing collective investment funds. The OCC is seeking to have the bank comply with the regulation through the payment of $28 million to the participants reflecting the amount owed by the bank as of the dates that withdrawal should have been permitted, plus interest. The matter is currently pending before an administrative law judge.

In other significant actions, the OCC reached a $1.5 million settlement with Hughes & Luce, a Dallas law firm, and three of its present and former partners, Linton Barbee, Daniel Hennessy, and Lewis T. Sweet. The individuals each contributed $20,000 to the settlement, with the law firm paying the remainder. The $1.5 million, less $100,000 to cover OCC expenses in the case, was paid to the Bank Insurance Fund. The settlement resolved claims arising from transactions identified by the Federal Deposit Insurance Corporation in its capacity as receiver of MBank Dallas, which failed in March 1989. The OCC sought the settlement after concluding, through an independent investigation, that the law firm and the lawyers advised, assisted, and participated in two complex transactions that resulted in losses of at least $2.2 million to the bank. The OCC's interpretation of the transactions is that they were designed to

improperly disguise poor quality, other real estate owned assets of the bank. The OCC contended that the law firm and the lawyers were participating in the conduct of the affairs of the bank and, thus, were under the OCC's jurisdiction. The law firm and the lawyers neither admitted nor denied the OCC's allegations.

The OCC also entered into settlement agreements totaling over $1.5 million in civil money penalties and $3.9 million in restitution with 12 individuals involved in four national banks in Connecticut that were part of the Penta Group. Eight of the individuals also consented to lifetime prohibitions from the banking industry. The Penta Group consisted of five loosely affiliated depository institutions organized by Richard D. Barbieri, Sr., president and chief executive officer of Security Savings and Loan Association, the oldest and largest institution in the group. The national banks in the Penta Group were: Enfield National Bank, Enfield, Connecticut; Liberty National Bank, Danbury, Connecticut; Summit National Bank, Torrington, Connecticut; and, Harbor National Bank of Connecticut, Branford, Connecticut. The OCC's actions were based upon alleged violations of law, unsafe or unsound practices, and breaches of fiduciary duty resulting from a series of crisscrossing loans made from the Penta Group institutions to various Penta Group insiders.

In other activities in 1993, E&C attorneys worked closely with the Department of Justice's (DOJ) Interagency Bank Fraud Working Group (BFWG). The BFWG continues to improve coordination and cooperation between the federal financial institutions regulatory agencies and the DOJ. Some of the division's contributions to the BFWG are as follows:

- Attending and participating in all regular meetings of the BFWG;

- Supporting and teaching at the FFIEC Testifying and White Collar Crime Schools and together with the FBI, jointly sponsoring quarterly training sessions of examiners and investigators;

- Refining changes to the interagency criminal referral form and working toward implementation of the Financial Crimes Enforcement Network, scheduled to go on-line in 1994;

- Updating and distributing copies of the BFWG directory;

- Actively participating in numerous local BFWGs throughout the country;

- Working to establish guidelines for regulatory agency access to grand jury information;

- Developing and distributing guidance to all federal agencies on the new legal requirement to provide the bank regulatory agencies with safety and soundness information;

- Developing guidelines on coordination of FIRREA asset forfeitures;

- Developing guidelines on preservation of privileges when documents are transferred to the DOJ or other agencies;

- Exchanging information on various bank frauds and other activities that may pose a threat to the system and issuing interagency alerts where appropriate (i.e., in the areas of "Prime Bank Notes" and a destructive computer virus); and

- Improving interagency efforts to conduct background checks on individuals seeking to enter the banking industry.

The OCC has also sought to improve coordination with the other federal bank regulatory agencies through regular meetings designed to enhance the overall effectiveness of our enforcement efforts. At these meetings, representatives of the financial institution regulatory agencies gather to exchange information regarding enforcement activities, discuss differences in policies or practices among the various agencies, and present new ideas on improving the regulatory process. This improved communication among the regulators promotes efficiency and consistency in the regulatory enforcement process.

E&C's offshore shell bank unit continues to provide information and expert testimony to local, national, and international law enforcement authorities. The division also continued to alert the banking industry to fraudulent or questionable offshore shell bank practices.

Securities, Investments, and Fiduciary Practices

The Securities, Investments, and Fiduciary Practices Division (SIFP) provides legal counsel to the OCC and advises the public on federal securities and banking laws related to bank securities activities, bank trust matters and collective investment funds, bank corporate practices, and bank investments.

SIFP administers and enforces the federal securities laws affecting national banks with publicly traded securities, including the Securities Exchange Act of 1934 (Exchange Act), and the OCC's related disclosure

regulations at 12 CFR 11. The division also enforces the OCC's securities offering disclosure rules (12 CFR 16), which govern national banks' public and private offers and sales of their securities, as well as national bank activities conducted under the Investment Company Act of 1940, the Investment Advisers Act of 1940, and the Trust Indenture Act of 1939.

SIFP is responsible for the OCC's enforcement program to assure national bank compliance with federal securities laws applicable to bank municipal and government securities dealers, bank transfer agents, and other bank securities activities. The division is the OCC's liaison to federal and state securities regulatory agencies, including the Securities and Exchange Commission (SEC).

During 1993, SIFP conducted investigations and brought enforcement actions against national banks and affiliated persons for violations of federal securities and banking laws. These enforcement initiatives included:

- Revising the OCC's Securities Activities Enforcement Policy to reflect recent legislative changes and ensure more effective enforcement responses.

- Investigating several national banks and their securities affiliates for compliance with the tying prohibitions of 12 U.S.C. 1972.

- Investigating allegations that certain national bank transfer agents violated SEC transfer agent rules on the safeguarding and destruction of cancelled corporate debt certificates and failed to provide proper notice of lost, missing, or stolen securities to the Securities Information Center.

- Launching a formal investigation into potential free-riding activities in customer custodial accounts at national banks. Free-riding typically occurs when a customer purchases and sells securities, usually through different broker-dealers, on the same day without sufficient funds in their accounts to pay for the securities. This practice may violate Regulations T, U, and X, 12 CFR 220, 221, and 224.

- Investigating whether a senior bank official traded in the bank's investment account for his own and others' personal benefit.

- Assessing a civil money penalty against the president of a failed bank for developing a plan by which the bank illegally financed the purchase of shares of its own stock.

As part of the OCC's effort to eliminate unnecessary regulation and make remaining regulations more user-friendly, SIFP staff have participated in a number of regulatory projects including: an ongoing revision of the OCC's securities offering rules at 12 CFR 16; efforts to revise the OCC's investment securities regulations at 12 CFR 1; and revision of the OCC's fiduciary activities regulations at 12 CFR 9.

SIFP helped draft OCC guidance in 1993 for national banks engaging in mutual fund activities to establish important consumer protections and promote the safety and soundness of national banks. In July, the OCC adopted Banking Circular 274 to provide guidance to the banking industry on disclosure, suitability, and other customer protections, and the safe and sound operation of nondeposit investment sales programs. In February 1994, the OCC joined the other federal banking agencies in adopting uniform guidance to banks on the sale of nondeposit investment products.

SIFP participated in developing an opinion letter in April 1993, permitting NationsBank to establish an operating subsidiary in partnership with Dean Witter Financial Services Group, to provide investment products on a joint partnership basis. SIFP also assisted in developing an agency response in July 1993, enabling Chemical Bank to establish an operating subsidiary to enter into a joint partnership with Liberty Mutual Insurance Company to sell investment products, including securities and annuities. SIFP also is participating in the OCC's consideration of a proposal by Mellon Bank, N.A., to acquire through an operating subsidiary most of the assets, operations, and activities of The Dreyfus Corporation, the sixth largest mutual fund company in the United States, and a similar proposal by First Union National Bank of North Carolina to acquire, through the establishment of three operating subsidiaries, two affiliated investment advisory companies. SIFP also has participated in efforts to coordinate OCC and SEC oversight of mutual fund activities of national banks, including coordination of examination efforts, sharing of information, and consulting on policy issues.

SIFP also played a role in developing OCC guidance on derivatives activities. Banking Circular 277 identified legal, supervisory, and accounting risks that arise for national banks participating in the growing derivatives markets and appropriate policies and procedures respecting those risks. SIFP participated in drafting an opinion letter on the permissibility of national banks, in hedging the financial exposure arising from otherwise permissible banking activities, to make or accept the delivery of physical commodities. SIFP also is considering whether it is legally permissible for national banks and their operating subsidiaries to enter into equity

derivative swaps contracts, consistent with the National Bank Act and the Glass-Steagall Act.

In the securities, investments, and corporate practice areas, the division completed other opinion letters interpreting: federal law preemption of state laws prohibiting banks from selling annuities; federal law preemption of registration requirements under state securities laws; the necessity of issuing daily confirmations in open repurchase agreement transactions; and the permissibility of certain securities as national bank investments.

As in past years, the division reviewed offering circulars, abbreviated information statements, notices of nonpublic offerings, registration statements, annual and special meeting proxy materials, periodic reports, and other reports filed with the OCC under the Comptroller's securities disclosure rules and merger application procedures. SIFP also continued to contribute to the SEC's enforcement and disclosure review responsibilities by, for example, arranging for the SEC to review bank examination reports and workpapers, and consult with examiners, in SEC enforcement cases. SIFP also provides the SEC with information on national bank subsidiaries of bank holding companies filing securities disclosures with the SEC. In 1993, the division also referred potential violations of securities laws under the SEC's jurisdiction to the SEC and subsequently assisted in the SEC investigations.

Legislative, Regulatory, and International Activities

The Legislative, Regulatory, and International Activities Division (LRIA) is responsible for providing legal advice on legislative and regulatory issues as well as providing legal advice on the management and operations of the OCC. The division analyzes proposed banking legislation and regulations, providing advice on legal issues. The division coordinates interagency initiatives involving banking legislation and regulation.

In 1993, LRIA coordinated analysis of all proposed banking legislation introduced during the first session of the 103rd Congress. It reviewed legislation relating to the OCC's supervision of national banks. LRIA also helped prepare OCC testimony before Congress, helped formulate OCC positions on pending legislation, responded to congressional inquiries, and drafted OCC legislative initiatives.

LRIA helped monitor and provide comments to Congress on proposed legislation dealing with:

- Community Development Banks and Financial Institutions
- Regulatory Burden Reduction
- Regulatory Consolidation
- Securitization of Bank Assets
- Interstate Banking and Branching
- Government Securities
- Community Reinvestment Act
- Bankers Banks
- Flood Insurance
- Electronic Monitoring
- Paperwork Reduction

LRIA's regulatory duties included reviewing, coordinating, and assisting in the development of OCC rules and notices. The division prepared the OCC's semiannual agenda of regulatory actions and the OCC's regulatory objectives for the regulatory program of the United States government. Among the most noteworthy rules and notices published by OCC during 1993 were:

- Capital Treatment of Intangible Assets (Part 3)
- Other Real Estate Owned (Parts 7 and 34)
- Extensions of Credit to Insiders (Part 31)
- Investment Securities (Part 1)
- Mergers with Thrifts (Part 5)

In 1993, LRIA started the Comptroller's Regulatory Review Project under which all of the OCC regulations will be reviewed and revised to eliminate undue burden, lack of clarity, and anachronisms. During 1993, review projects were started on the following:

- Lending Limits (Part 32)
- Rules, Policies, and Procedures for Corporate Activities (Part 5)
- Investment Securities Regulation (Part 1)
- International Operations Regulation (Part 20) and Federal Branches and Agencies of Foreign Banks (Part 28)
- Management Official Interlocks (Part 26)
- Fiduciary Powers of National Banks and Collective Investment Funds (Part 9)

LRIA also participated in those aspects of the President's Credit Availability Program that involved OCC regulations.

In 1993, LRIA provided legal advice on OCC administrative matters such as procurement, real estate leasing, human resources, and financial management. In addition to administering OCC's ethics policies and the Department of Treasury's Standards of Conduct, LRIA also implemented the new governmentwide ethics standards that became applicable to all OCC employees.

Corporate Organization and Resolutions

The Corporate Organization and Resolutions Division (CORD) provides legal advice on structural issues such

as interstate branching, cross-industry mergers and acquisitions, special purpose banks, and questions relating to failing banks. It provides advice primarily to OCC divisions such as Bank Organization and Structure, Multinational Banking, International Banking and Finance, and Special Supervision, as well as the OCC's district licensing officers. CORD attorneys also serve as liaisons to OCC field examiners at selected national banks and to the other regulatory agencies.

Significant CORD projects in 1993 are summarized below.

Advisory Matters

- Legal analysis leading to OCC's decision to approve the relocation of First Fidelity Bank, N.A., Pennsylvania, to New Jersey, followed by its merger with First Fidelity Bank, N.A., New Jersey, resulting in a national bank with branches in both states.
- Several interpretive letters further developing the concept of facility banking, which permits banks to provide better service to their customers through contractual arrangements with other depository institutions.
- Interpretive letters increasing the usefulness of loan production offices by permitting more flexibility in their operations.
- Providing legal advice and assistance in the closing of insolvent or undercapitalized banks.
- Assisting OCC supervisory personnel in providing information to facilitate Senate Banking Committee and General Accounting Office investigations of recapitalization and subsequent failure of First City Bancorporation of Texas and its subsidiary banks.
- Participating in a working group investigating the possibility of uninsured banks, including issues related to chartering, receivership, liquidation, and termination of a previously insured bank's insurance.
- Working with OCC supervisory personnel and the Justice Department on antitrust issues raised by bank mergers.
- Participating in an interagency working group to develop a common policy statement on branch closings.

Regulatory Matters

- Participating in working groups on revising the DIMIA regulations and developing FDICIA Prompt Corrective Action guidelines.
- Drafting a final rule implementing Section 914 of FIRREA.
- Issuing an expanded Interpretive Ruling providing guidance on the use of messenger services, enabling banks to offer better service to customers with greater legal certainty.
- Participating with other Law Department divisions in a major rewriting of the OCC's regulations on corporate applications in 12 CFR 5.

Bank Operations and Assets

The Bank Operations and Assets Division (BOAD) is responsible for legal issues relating to general bank powers under the National Bank Act, Bank Holding Company Act, Federal Deposit Insurance Act, and other statutes. The division also provides interpretations and advice on questions relating to the capital of national banks, lending limits, real estate, and consumer protection laws.

During 1993, BOAD provided legal counsel on issues relating to OCC bank examination and compliance matters and national bank products and services. Noteworthy legal advice, opinions, and comment prepared by BOAD in 1993 are summarized below. Interpretations issued by OCC staff are published in the "Interpretations" section of the *Quarterly Journal* and the OCC publication *Interpretations and Actions*.

Advisory Matters

- How leases of real estate previously used by national banks in their businesses should be treated.
- Federal law preempts state statutory provisions purporting to allow states to exercise supervisory powers over national banks.
- Letters of credit used to finance automobile dealers' purchase of cars from manufacturers should be amended to allow national banks to estimate their lending exposure.
- A national bank may purchase for its own account an interest in a limited partnership

formed and licensed as a small business investment company.

- Certain non-recourse loans sold to a national bank by home improvement dealers are not subject to the provisions on flood insurance in 12 CFR 22.

- The holding period for other real estate owned (OREO) that a national bank acquires through a merger, consolidation, conversion, or purchase and assumption transaction begins on the date of the merger, consolidation, conversion, or purchase and assumption.

- A corporation engaging fee appraisers for national banks on a fee-for-service basis is an agent for the purposes of 12 CFR 34.45(b).

- Borrower involvement in the selection of an appraiser does not per se constitute a violation of 12 CFR 34.

Regulations

- Amendment to 12 CFR 3 on treatment of intangible assets under OCC's risk-based capital guidelines.

- Technical amendments to 12 CFR 31 on the authority for OCC's regulations on insider lending by national banks.

- Amendment to 12 CFR 7 and 34 on rules related to national banks' ownership of OREO.

- Amendment to 12 CFR 7 and 24 on national banks' investments in community development corporations and community development projects.

Paralegal Unit

BOAD's paralegal specialists provide services in consumer protection and other areas, including reviewing and responding to consumer complaints involving national banks. The paralegals also handle appeals of consumer complaints forwarded by OCC's six districts. During 1992, the unit received 1,336 consumer complaints and completed 1,344 responses to complaints. As in previous years, the unit also provided assistance to Law Department attorneys.

Quality Improvement

In 1993, the OCC continued to refine its quality improvement process to make it more effective in staff offices, strengthen the replication of good solutions, and integrate quality improvement concepts into the daily activites of all employees.

Quality improvement teams are active in all six districts and the Washington Office. The teams are focusing primarily on improving the quality and efficiency of bank supervision. In addition, the Quality Improvement staff provided support to the Vice President's National Performance Review (NPR) team and participated on the Treasury Reinvention Team to promote information sharing and implementation of NPR recommendations throughout the Treasury Department.

Management Improvement

Management Improvement is the OCC's liaison with the U.S. General Accounting Office (GAO) and the Department of the Treasury's Inspector General (IG). The latter is the internal auditor for the OCC. In 1993, both the GAO and the IG conducted reviews of OCC's bank supervision process. The GAO also reviewed regulatory burden and the IG performed a pilot audit of a failed bank to prepare itself to perform reviews required by the Federal Deposit Insurance Corporation Improvement Act. Management Improvement facilitates audits and investigations and assures OCC responsiveness and follow-up to findings and recommendations of GAO and the IG.

Because Management Improvement is also the focal point for OCC's participation in and compliance with a variety of governmentwide initiatives, it will be working with Quality Improvement to evaluate and coordinate OCC's implementation of recommendations made by the National Performance Review. Efforts to reduce internal regulations by 50 percent had already begun at year-end 1993.

Resource Management

During 1993, the Resource Management Department undertook various initiatives to increase efficiency, improve quality, and reduce costs associated with administrative programs and services.

Operating costs were significantly reduced through the renegotiation of leases and relocation of offices, resulting in $7.7 million savings over original lease agreements. The procurement process was streamlined and rendered "customer-friendly" through implementation of a nationwide bank card program for small purchases.

Numerous OCC schools were either developed or updated and training efforts were consolidated to insure consistency and quality. Diagnostic instruments were implemented to identify precommissioned examiner training needs and team building and management transition meetings were sponsored in numerous OCC offices.

A new Human Resources help desk was implemented and the OCC Performance Management Program was revised and streamlined. Efforts were taken to centralize the employee relocation process, improve customer service, and streamline programs through improved automated tools and systems.

Administrative Services

During 1993, the Administrative Services Division increased efficiency and realized substantial financial savings in the acquisition and management of office space and the procurement of goods and services. Renegotiation of leases and relocation of offices resulted in initial savings of $1.5 million with a total of $7.7 million in savings anticipated over the course of original lease agreements. Automation of the leasing and space management functions will also result in more cost-effective management of OCC office space in years to come. A detailed disaster recovery plan for the Washington Office was also completed and additional savings were realized in managing and scheduling conference space.

The procurement process was improved through implementation of a nationwide bank card program for small purchases (under $2,500). Customer service was enhanced through efforts to help clients understand how to independently prepare statements of work.

Training and Performance Development

In 1993, Training and Performance Development developed and updated OCC schools and consolidated nationwide training efforts to insure consistency and quality. New schools include a course on credit for precommissioned examiners, a comprehensive training curriculum for compliance examiners, and a series of conferences for compliance managers and spe-

cialists. The Bank Supervision School was also revised and updated.

Diagnostic and assessment instruments were implemented, including the Individual Career Progress Assessment (ICPA), which identifies precommissioned examiner training needs; a loan skills diagnostic tool; and a new hire self-assessment. Team building sessions and management transition meetings were sponsored in numerous offices throughout the agency.

Human Resources

The Human Resources Division pursued a number of critical initiatives in 1993 that were designed to increase efficiency and effectiveness and improve customer service.

A help desk was implemented to help reception desk staff members answer basic human resource questions and direct callers and visitors to appropriate division specialists. The OCC Performance Management Program was revised and streamlined and a recruitment tracking system was purchased. Progress was made in centralizing the employee relocation process in order to reduce program costs and improve customer service. Automated tools were developed to support agency efforts to comply with Thrift Savings Plan lost earnings regulations. Other human resource programs were streamlined through improved automated tools and systems.

Essential groundwork was laid for replacing the OCC Group Health Plan with the Federal Employee's Health Benefits Program in 1995. The OCC Long Term Disability Program was renegotiated at a savings to the agency. Movement toward local-market-based pay was also initiated in high-cost OCC cities to meet the comparability requirements of the Financial Institutions Reform, Recovery, and Enforcement Act.

Information Resources Management

As the senior information official at the OCC, the Deputy Comptroller for Information Resources Management (IRM) is responsible for the development and operation of automated information systems. The deputy comptroller represents the OCC on IRM issues at Treasury and encourages closer technical cooperation with the other federal financial regulators. The deputy comptroller also chairs the IRM Advisory Committee (IRMAC), which develops policies and priorities to guide information systems development and use at the OCC.

Four IRM divisions report to the deputy comptroller: applications development, systems support, supervisory research, and information systems coordination. These divisions assist users and develop and operate automated bank supervision and administrative information systems.

Information Systems Coordination

Information Systems Coordination (ISC) is composed of three branches: the information center, quality assurance, and information systems planning. Division staff is responsible for information systems planning and administrative support for all IRM units. The division supports the deputy comptroller and the IRM Advisory Committee by developing plans, policies, and priorities for information systems development and use. The division also coordinates IRM initiatives with OCC's district offices, is responsible for meeting Treasury's data processing requirements, and communicates with IRM staff at other financial regulators.

The Information Center helps to assure that staff at the OCC's Washington headquarters are able to obtain and use office automation equipment and software. It also improves query access to information on mainframe information systems. The Quality Assurance branch develops and maintains standards to ensure high-quality products and support from IRM. It is also responsible for maintaining security controls over automated information systems. The Information Systems Planning branch integrates strategic IRM planning into the annual budget process and coordinates IRM Treasury reporting requirements.

In 1993, the Information Center upgraded and replaced the majority of the personal computers in service at the Washington headquarters. The branch also completed the LAN expansion program on schedule and upgraded the LAN server hardware and operating systems. The Information Center was expanded in 1993 to accomplish the LAN expansion.

In 1993, the Quality Assurance (QA) branch improved the security function at the OCC by developing and testing a certification process for applications. QA continued to support an ambitious standards program, issuing or updating more than 20 standards and technical bulletins. The branch also completed the Subject Database Methodology, the first portion of the decomposition of the original Application Development Life Cycle (ADLC).

In 1993, the Information Systems Planning function was reorganized and is now headed by the ISP Officer and staffed with a program analyst. The ISP program developed a complete priority project listing for IRM that was the basis for a major mid-year planning session by IRM senior management. The branch made technical improvements in identifying and inventorying

databases for the technology architecture and in other components of the ISP. In assuming responsibilities for monitoring the IRM budget, the branch also developed a revised tracking mechanism to assist management in analyzing and monitoring the 1994 IRM budget and office automation requests. ISP assumed lead responsibility for mandatory reporting and IRM program coordination with the Treasury Department.

Applications Development

The Applications Development Division (ADD) is responsible for the OCC's application systems design, implementation, and support. It also oversees the agency's corporate data management program. ADD is organized into two information system development branches (ISD 1 and 2), two information systems support and research branches (ISSR 1 and 2), and a data administration (DA) unit. The two ISSR branches are responsible for supervision, administration, and finance systems.

In 1993, the division undertook the following projects:

- Implemented IDMS 12.0 with the help of the Systems Support Division (SSD). The migration affected all database applications, requiring the modification, testing, and recompilation of over 400 programs. Implemented the Law Department Management Information Systems (LDMIS) to provide statistical information to Law Department managers, automate the management of work assignments, and track assignments in review.

- Implemented the CA Accounting Software (CAS) Rel 1.3 project, which has moved the agency towards a "paperless" accounting system.

- Completed the technical design and application programming/testing of the Corporate Activities Information System (CAIS) program, which maintains and tracks information on corporate licensing activities.

- Completed Big BERT expert system, which is running on the mainframe.

- Developed and delivered the Product Tree under a Rapid Application Development (RAD) methodology.

- Implemented Corporate Reporting, which provides centralized access to reports generated by various OCC information systems.

- Supported client efforts with regard to the Relocation and Recruitment system.

Systems Support

The Systems Support Division (SSD), located at the OCC's Centre Pointe data center facility in Landover, Maryland, operates OCC's mainframe computer facility and its software, along with the agency's telecommunications network, both voice and data. The division is comprised of five branches: computer operations; database administration; systems programming; telecommunications; and microcomputer and LAN support.

The Computer Operations branch runs the mainframe computer and oversees report processing and distribution. The branch assures that users can access the OCC's mainframe computer almost continuously. The branch also monitors and assures the security of the Centre Pointe facility. The branch provides production control support and assists OCC personnel with problems dealing with mainframe and personal computers (PCs). The Database Administration branch designs, builds, and maintains the OCC's physical databases. This branch supports network and relational database structures in mainframe and PC environments. The Systems Programming branch maintains the operating systems that run the mainframe hardware and also installs all software products used on the mainframe. The Telecommunications branch provides advice and support on telephone systems used at headquarters, district, field, and duty station offices. In addition, the branch manages the OCC data communications network and value-added network, which are used for dialing in from remote locations. The Microcomputer and LAN Support branch maintains the OCC's office automation program for microcomputers and LAN hardware and software. The branch helps evaluate, select, and purchase office automation equipment and software; analyzes new or improved technology; and develops policies for office automation hardware and software.

In 1993, the division undertook the following projects:

- Replaced two Amdahl 5880 mainframe computers with one Amdahl 5995-790A mainframe.

- Implemented IDMS 12.0. with the help of ADD. The migration affected all database applications, requiring the modification, testing, and recompilation of over 400 programs.

- Coordinated the testing, modification, acceptance testing, promotion, and implementation of the Automated Line Slip application.

- Replaced all of the multiplexor blue gate telecommunication ports with the SNA S-gate ports, increasing capacity and capability.

- Replaced Tymnet dial-in network with an OCC 800 number, which resulted in a 75 percent increase in use and a 25 percent reduction in cost.

- Continued to provide mainframe and network performance of less than 5 second response time 95 percent of the time and kept the mainframe fully operational 97 percent of the time.

Supervisory Research

Supervisory Research is responsible for assuring that new techniques and microcomputer technology improve the OCC's supervision of national banks. Technology such as microcomputers, networking, and applications provides examiners with direct access to databases as well as data and word processing. The division develops financial modeling and advanced financial analysis techniques for bank examiners; tests microcomputer software tools; and analyzes proposals involving technological applications for bank supervision.

In 1993, the division initiated the Examiner View project and began developing a prototype for automated micro-applications to fully support examiners conducting examination programs. The division also completed initial development of the Examiner Tool Box. Staff members conducted outreach efforts for all of the districts and headquarters bank supervision departments on the Examiner View and Examiner Tool Box concepts.

Financial Services (Chief Financial Officer)

The OCC has worked to implement the Chief Financial Officers Act of 1990 by establishing the position of chief financial officer (CFO) and a supporting organizational structure. The CFO is responsible for overseeing all financial activities relating to the OCC's programs and operations, reporting directly to the Senior Deputy Comptroller for Administration. The organizational structure allows the OCC to enhance its budgetary systems, integrated accounting systems, financial reporting, and internal controls and to provide guidance to OCC management on financial issues. Financial Policy, Review, and Analysis (FRPA), Financial Operations (FO), and Financial Systems Management (FSM) make up the department. Each of these units is headed by an assistant chief financial officer (ACFO).

Financial Policy, Review, and Analysis

Financial Policy, Review, and Analysis (FPRA) is responsible for monitoring the OCC's revenue sources and recommending policies to ensure that the OCC has sufficient funds to operate effectively. FPRA also formulates and monitors the OCC's budget to ensure that it reflects the OCC's priority objectives and the efficient allocation of funds.

As required under the Chief Financial Officers Act of 1990, FPRA coordinated and produced the OCC's *1992 CFO Financial Statements* for submission to the Office of Management and Budget. The act required agencies to develop a financial overview of operations and financial management in addition to producing annual audited financial statements.

During 1993, FPRA also:

- Conducted quality control reviews of financial operations in both the OCC's district offices and the Financial Services Department in Washington.

- Provided guidance on accounting and expenditure issues such as OCC's travel policies.

- Began development of, and updates to, the Financial Services Accounting Manual.

- Updated OCC travel regulations to ensure compliance with tax regulations, consistency with other financial regulators, and consistency with other government agencies.

- Selected a new travel services contractor to manage OCC's travel requirements.

Financial Systems Management

Financial Systems Management (FMS) is responsible for the design, development, enhancement, and implementation of financial systems. In 1993, Financial Systems Management:

- Completed major upgrades to the accounts payable and general ledger systems to position FS to avail itself of technological advances in financial information systems.

- Served on the Financial Management Systems Advisory Committee that was formed by the Treasury Department to review, evaluate, and formulate alternatives and recommendations for proposed financial management systems changes departmentwide.

- Continued to enhance reporting capabilities and prepare for providing on-line access to financial information for OCC managers.

- Completed necessary preparations to decentralize accounts payable to the district offices, providing payment inquiry and processing capability.

- Continued to coordinate enhancements to financial systems and to assure satisfactory resolution of production problems.

Financial Operations

Financial Operations is responsible for the day-to-day operation of the accounting system, control of OCC's receipts and payments, cash reconciliation, financial reporting, and employee services.
In 1993, Financial Operations:

- Implemented a new accounts payable system (CAS 1.3) at Washington headquarters.

- Started the implementation of the new accounts payable system in the district offices.

- Implemented the new In-Track relocation system.

- Continued to meet Treasury's goal for the Prompt Payment Act.

- Developed a process to implement FAS 106, Post-Retirement Benefits.

Equal Employment Programs

The Equal Employment Programs Division covers the areas of equal employment opportunity (EEO), affirmative employment, discrimination complaints, and work force diversity. In 1993, EEO and affirmative employment accomplishments included revising and updating the OCC's affirmative employment goals; coordinating a Comptroller's meeting to develop strategies for hiring, promoting, and retaining minorities and developing the strategy document; writing EEO and sexual harassment policy statements for the Comptroller; and conducting training on EEO, affirmative employment, handling complaints, and dealing with sexual harassment for groups such as the Multinational Banking Department, compliance managers, the Northeastern District EEO Committee, and the Texas Banking Commission. EEP also implemented the Career Awareness Program for Stay-in-School participants. Several meetings were held with this group of students, including a motivational session with guest speakers from the National Association for the Advancement of Colored People.

EEP resolved discrimination complaints and used anticipatory measures to prevent formal complaints, such as complaint resolution sessions. Training on discrimination complaints was developed and given to all EEO counselors. An EEP staff member also served as co-instructor for the Southwestern District's EEO counselors training. EEP staff developed a handbook for EEO counselors and tailored Equal Employment Opportunity Commission training material for OCC use.

In the area of work force diversity, 1993 activities included the appointment of a work force diversity manager and launching of an OCC-wide initiative on diversity. An executive briefing by a nationally known consultant was held and another one planned. The diversity action plan was updated, a diversity resource center was established in Washington, promotional material was produced, and technical assistance was provided to the districts.

In September, the reporting structure for EEP was changed. The division now reports directly to the Comptroller through one of the Senior Policy Advisors.

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Comptrollers of the Currency, 1863 to the present

No.	Name	Dates of tenure		State
1	McCulloch, Hugh	May 9, 1863	Mar. 8, 1865	Indiana
2	Clarke, Freeman	Mar. 21, 1865	July 24, 1866	New York
3	Hulburd, Hiland R	Feb. 1, 1867	Apr. 3, 1872	Ohio
4	Knox, John Jay	Apr. 25, 1872	Apr. 30, 1884	Minnesota
5	Cannon, Henry W.	May 12, 1884	Mar. 1, 1886	Minnesota
6	Trenholm, William L.	Apr. 20, 1886	Apr. 30, 1889	South Carolina
7	Lacey, Edward S.	May 1, 1889	June 30, 1892	Michigan
8	Hepburn, A. Barton	Aug. 2, 1892	Apr. 25, 1893	New York
9	Eckels, James H.	Apr. 26, 1893	Dec. 31, 1897	Illinois
10	Dawes, Charles G.	Jan. 1, 1898	Sept. 30, 1901	Illinois
11	Ridgely, William Barret	Oct. 1, 1901	Mar. 28, 1908	Illinois
12	Murray, Lawrence O	Apr. 27, 1908	Apr. 27, 1913	New York
13	Williams, John Skelton	Feb. 2, 1914	Mar. 2, 1921	Virginia
14	Crissinger, D.R.	Mar. 17, 1921	Mar. 30, 1923	Ohio
15	Dawes, Henry M.	May 1, 1923	Dec. 17, 1924	Illinois
16	McIntosh, Joseph W.	Dec. 20, 1924	Nov. 20, 1928	Illinois
17	Pole, John W.	Nov. 21, 1928	Sept. 20, 1932	Ohio
18	O'Conner, J.F.T.	May 11, 1933	Apr. 16, 1938	California
19	Delano, Preston	Oct. 24, 1938	Feb. 15, 1953	Massachusetts
20	Gidney, Ray M.	Apr. 16, 1953	Nov. 15, 1961	Ohio
21	Saxon, James J.	Nov. 16, 1961	Nov. 15, 1966	Illinois
22	Camp, William B.	Nov. 16, 1966	Mar. 23, 1973	Texas
23	Smith, James E.	July 5, 1973	July 31, 1976	South Dakota
24	Heimann, John G.	July 21, 1977	May 15, 1981	New York
25	Conover, C.T.	Dec. 16, 1981	May 4, 1985	California
26	Clarke, Robert L.	Dec. 2, 1985	Feb. 29, 1992	Texas
27	Ludwig, Eugene A.	Apr. 5, 1993	....	Pennsylvania

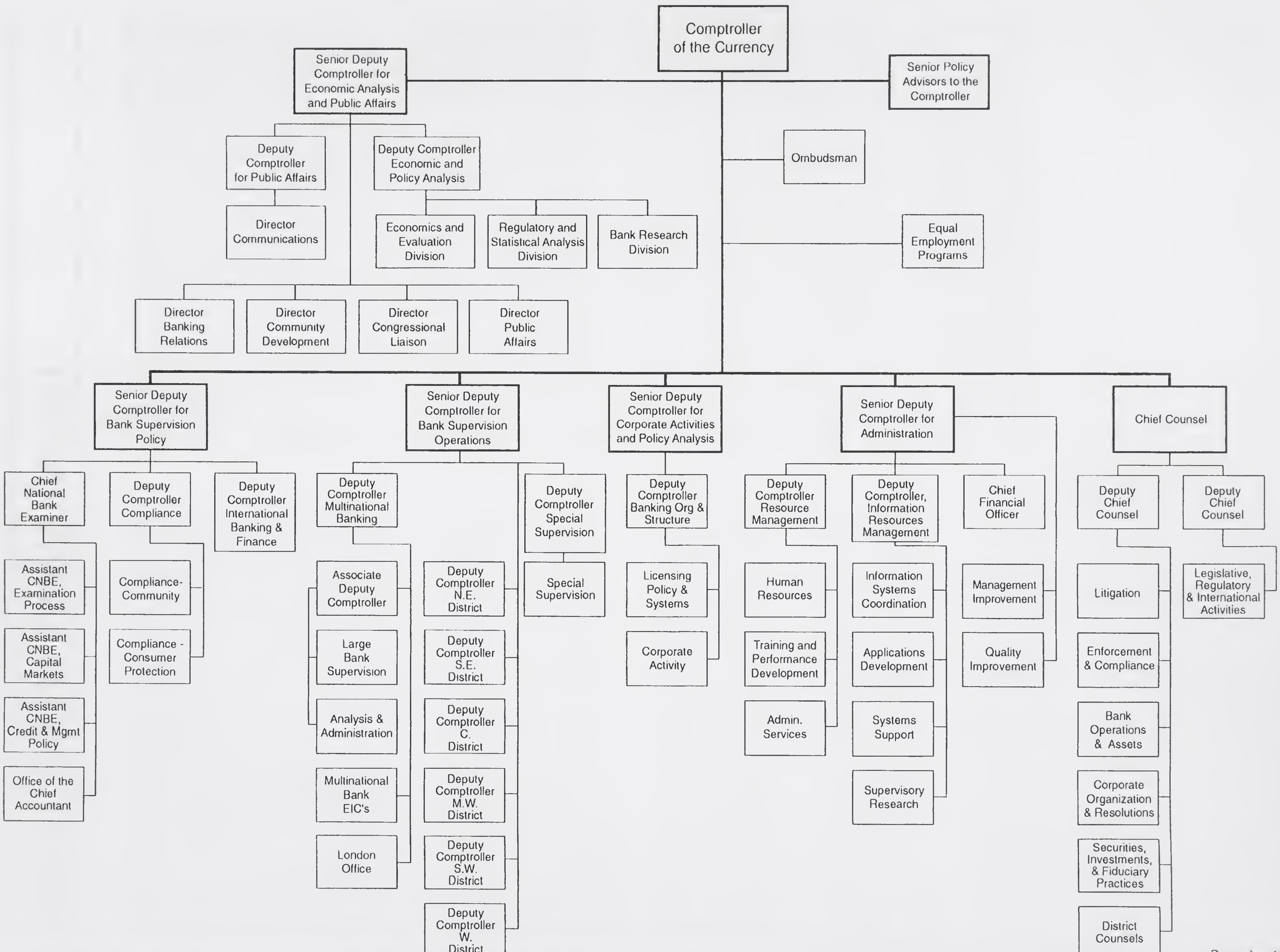
Senior Deputy and Deputy Comptrollers of the Currency, 1863 to the present

No.	Name	Dates of tenure		State
1	Howard, Samuel T.	May 9, 1863	Aug. 1, 1865	New York
2	Hulburd, Hiland R.	Aug. 1, 1865	Jan. 31, 1867	Ohio
3	Knox, John Jay	Mar. 12, 1867	Apr. 24, 1872	Minnesota
4	Langworthy, John S.	Aug. 8, 1872	Jan. 3, 1886	New York
5	Snyder, V.P.	Jan. 5, 1886	Jan. 3, 1887	New York
6	Abrahams, J.D.	Jan. 27, 1887	May 25, 1890	Virginia
7	Nixon, R.M.	Aug. 11, 1890	Mar. 16, 1893	Indiana
8	Tucker, Oliver P.	Apr. 7, 1893	Mar. 11, 1896	Kentucky
9	Coffin, George M.	Mar. 12, 1896	Aug. 31, 1898	South Carolina
10	Murray, Lawrence O.	Sept. 1, 1898	June 29, 1899	New York
11	Kane, Thomas P.	June 29, 1899	Mar. 2, 1923	District of Columbia
12	Fowler, Willis J.	July 1, 1908	Feb. 14, 1927	Indiana
13	McIntosh, Joseph W.	May 21, 1923	Dec. 19, 1924	Illinois
14	Collins, Charles W.	July 1. 1923	June 30, 1927	Illinois
15	Steams, E.W.	Jan. 6, 1925	Nov. 30, 1928	Virginia
16	Awalt, F.G.	July 1, 1927	Feb. 15, 1936	Maryland
17	Gough, E.H.	July 6, 1927	Oct. 16, 1941	Indiana
18	Proctor, John L.	Dec. 1, 1928	Jan. 23, 1933	Washington
19	Lyons, Gibbs	Jan. 24, 1933	Jan. 15, 1938	Georgia
20	Prentiss, William, Jr.	Feb. 24, 1936	Jan. 15, 1938	Georgia
21	Diggs, Marshall R.	Jan. 16, 1938	Sept. 30, 1938	Texas
22	Oppegard, G.J.	Jan. 16, 1938	Sept. 30, 1938	California
23	Upham, C.B.	Oct. 1, 1938	Dec. 31, 1948	Iowa
24	Mulroney, A.J.	May 1, 1939	Aug. 31, 1941	Iowa
25	McCandless, R.B.	July 7, 1941	Mar. 1, 1951	Iowa
26	Sedlacek, L.H.	Sept. 1, 1941	Sept. 30, 1944	Nebraska
27	Robertson, J.L.	Oct. 1, 1944	Feb. 17, 1952	Nebraska
28	Hudspeth, J.W.	Jan. 1, 1949	Aug. 31, 1950	Texas
29	Jennings, L.A.	Sept. 1, 1950	May 16, 1960	New York
30	Taylor, W.M.	Mar. 1, 1951	Apr. 1, 1962	Virginia
31	Garwood, G.W.	Feb. 18, 1952	Dec. 31, 1962	Colorado
32	Fleming, Chapman C.	Sept. 15, 1959	Aug. 31, 1962	Ohio
33	Haggard, Holis S.	May 16, 1960	Aug. 3, 1962	Missouri
34	Camp, William B.	Apr. 2, 1962	Nov. 15, 1966	Texas
35	Redman, Clarence B.	Aug. 4, 1962	Oct. 26, 1963	Connecticut
36	Watson, Justin T.	Sept. 3, 1962	July 18, 1975	Ohio
37	Miller, Dean E.	Dec. 23, 1962	Oct. 22, 1990	Iowa
38	DeShazo, Thomas G.	Jan. 1, 1963	Mar. 3, 1978	Virginia
39	Egertson, R. Coleman	July 13, 1964	June 30, 1966	Iowa
40	Blanchard, Richard J.	Sept. 1, 1964	Sept. 26, 1975	Massachusetts
41	Park, Radcliffe	Sept. 1, 1964	June 1, 1967	Wisconsin
42	Faulstich, Albert J.	July 19, 1965	Oct. 26, 1974	Louisiana
43	Motter, David C.	July 1, 1966	Sept. 20, 1981	Ohio
44	Gwin, John D.	Feb. 21, 1967	Dec. 31, 1974	Mississippi
45	Howland, W.A., Jr.	July 5, 1973	Mar. 27, 1978	Georgia
46	Mullin, Robert A.	July 5, 1973	Sept. 8, 1978	Kansas
47	Ream, Joseph M.	Feb. 2, 1975	June 30, 1978	Pennsylvania
48	Bloom, Robert	Aug. 31, 1975	Feb. 28, 1978	New York
49	Chotard, Richard D.	Aug. 31, 1975	Nov. 25, 1977	Missouri
50	Hall, Charles B.	Aug. 31, 1975	Sept. 14, 1979	Pennsylvania
51	Jones, David H.	Aug. 31, 1975	Sept. 20, 1976	Texas
52	Murphy, C. Westbrook	Aug. 31, 1975	Dec. 30, 1977	Maryland
53	Selby, H. Joe	Aug. 31, 1975	Mar. 15, 1986	Texas
54	Homan, Paul W.	Mar. 27, 1978	Jan. 21, 1983	Nebraska
55	Keefe, James T.	Mar. 27, 1978	Sept. 18, 1981	Massachusetts
56	Muckenfuss, Cantwell F. III	Mar. 27, 1978	Oct. 1, 1981	Alabama
57	Wood, Billy C.	Nov. 7, 1978	Jan. 16, 1988	Texas
58	Longbrake, William A.	Nov. 8, 1978	July 9, 1982	Wisconsin
59	Odom, Lewis G., Jr.	Mar. 21, 1979	Nov. 16, 1980	Alabama
60	Martin, William E.	May 22, 1979	Apr. 4, 1983	Texas
61	Barefoot, Jo Ann	July 13, 1979	Sept. 5, 1982	Connecticut
62	Downey, John	Aug. 10, 1980	Aug. 2, 1986	Massachusetts
63	Lord, Charles E.	Apr. 13, 1981	Mar. 31, 1982	Connecticut
64	Bench, Robert R.	Mar. 21, 1982	Sept. 25, 1987	Massachusetts
65	Klinzing, Robert R.	Mar. 21, 1982	Aug. 21, 1983	Connecticut
66	Robertson, William L.	Mar. 21, 1982	Sept. 26, 1986	Texas
67	Arnold, Doyle L.	May 2, 1982	May 12, 1984	California
68	Weiss, Steven J.	May 2, 1982		Pennsylvania
69	Stephens, Martha B.	June 1, 1982	Jan. 19, 1985	Georgia
70	Stirnweis, Craig M.	Sept. 19, 1982	May 1, 1986	Idaho
71	Herrmann, Robert J.	Jan. 1, 1983		Illinois
72	Mancusi, Michael A.	Jan. 1, 1983	Feb. 17, 1986	Maryland

Senior Deputy and Deputy Comptrollers of the Currency, 1863 to the present — continued

No.	Name	Dates of tenure		State
73	Marriott, Dean S.	Jan. 1, 1983	....	Missouri
74	Poole, Clifton A., Jr.	Jan. 1, 1983	....	North Carolina
75	Taylor, Thomas W.	Jan. 1, 1983	Jan. 16, 1990	Ohio
76	Boland, James E., Jr.	Feb. 7, 1983	Feb. 15, 1985	Pennsylvania
77	Fisher, Jerry	Apr. 17, 1983	Apr. 4, 1992	Delaware
78	Patriarca, Michael	July 10, 1983	Aug. 15, 1986	California
79	Wilson, Karen J.	July 17, 1983		New Jersey
80	Winstead, Bobby B.	Mar. 18, 1984	June 11, 1991	Texas
81	Chew, David L.	May 2, 1984	Feb. 2, 1985	District of Columbia
82	Walter, Judith A.	Apr. 24, 1985	....	Indiana
83	Maguire, Francis E., Jr.	Jan. 9, 1986	....	Virginia
84	Kraft, Peter C.	July 20, 1986	Sept. 15, 1991	California
85	Klinzing, Robert R.	Aug. 11, 1986	....	Connecticut
86	Hechinger, Deborah S.	Aug. 31, 1986	Sept. 14, 1987	District of Columbia
87	Norton, Gary W.	Sept. 3, 1986	....	Missouri
88	Shepherd, J. Michael	Jan. 9, 1987	May 3, 1991	California
89	Rushton, Emory W.	Jan. 21, 1987	Sept. 20, 1989	South Carolina
90	Fiechter, Jonathan L.	Mar. 4, 1987	Oct. 30, 1987	Pennsylvania
91	Stolte, William J.	Mar. 11, 1987	Mar. 21, 1992	New Jersey
92	Clock, Edwin H.	Feb. 29, 1988	Jan. 3, 1990	California
93	Krause, Susan F.	Mar. 30, 1988	....	California
94	Coonley, Donald G.	June 29, 1988	....	Virginia
95	Blakely, Kevin M.	Oct. 12, 1988	Sept. 27, 1990	Illinois
96	Steinbrink, Stephen R.	Apr. 8, 1990		Nebraska
97	Lindhart, Ronald	Apr. 22, 1990	July 27, 1991	Florida
98	Hartzell, Jon K.	July 29, 1990	....	California
99	Cross, Leonora S.	Nov. 4, 1990	....	Utah
100	Finke, Fred D.	Nov. 4, 1990	....	Nebraska
101	Kamihachi, James D.	Nov. 6, 1990	....	Washington
102	Barton, Jimmy F.	July 14, 1991	....	Texas
103	Cross, Stephen M.	July 28, 1991	....	Virginia
104	Guerrina, Allan B.	Apr. 19, 1992	....	Virginia
105	Powers, John R.	Aug. 9, 1992	....	Illinois
106	Alt, Konrad S.	Sept. 5, 1993	....	California

OFFICE OF THE COMPTROLLER OF THE CURRENCY



December 1993

Community Reinvestment Act

The Office of the Comptroller of the Currency is required by the Community Reinvestment Act (CRA) 12 U.S.C. 2901, *et seq.*, to include in its annual report to Congress a section outlining the actions it has taken to carry out its responsibilities under the act. The CRA encourages national banks and other insured depository institutions to help meet the credit needs of the local communities in which they are chartered to do business. During an examination of a national bank, the OCC examines the bank's record of helping to meet the credit needs of the bank's entire community, including low- and moderate-income neighborhoods. At the same time an exam is done to determine fair lending compliance.

In 1993, the OCC conducted CRA performance evaluations at 979 national banks. The OCC maintains a public file of the CRA performance evaluations of these national banks as well as other national banks examined previously. In 1993, 154 national banks received an "outstanding" evaluation, 740 a "satisfactory" rating, 83 were rated as "needs to improve," and 2 national banks were in "substantial noncompliance" with the CRA.

Following five months of public hearings, staff review and analysis, interagency consultation and deliberation, the OCC, the Federal Reserve, the Office of Thrift Supervision and the FDIC jointly published a Notice of Proposed Rulemaking, designed to significantly modify the regulations governing CRA.

The principal features of the proposed rulemaking include elimination of the 12 assessment factors currently used to evaluate compliance with the CRA. These would be replaced with a performance-based system measuring loans and investments made and services offered.

The agencies have not proposed to require any set level of lending to any particular community or constituency. The agencies wish to avoid a formulaic approach to CRA reform, which could have the effect of forcing institutions into a common mold. Where the proposal does use specific tests or benchmarks, these take the form of rebuttable presumptions that would permit each institution to be evaluated on the basis of its own situation. The proposal is designed to recognize the diversity that characterizes the banking and thrift sectors. In general, institutions would be evaluated on the basis of the product lines they offer to their customers in the normal course of business, so the proposed regulation would not require banks and thrifts to offer specific products or to make loans or investments that are inconsistent with safe and sound practices.

Another way in which the OCC carries out its responsibilities under the CRA is through its compliance program, which in addition to the CRA, monitors national bank compliance with fair lending and consumer protection laws, bank secrecy, and fiduciary activities. One of the components of the compliance program is to inform bank management of its compliance responsibilities. In 1993, the OCC issued over 130 bulletins, circulars, and advisories related to compliance.

The OCC also considers CRA performance when it evaluates an application filed by a national bank to open a new deposit facility such as a branch. Other applications, such as merger requests, charter conversions, or relocations, also include, among other things, CRA evaluations. These evaluations occur whether or not the institution's CRA performance is protested by outside groups. In 1993, 14 applications were protested by outside groups. The OCC conditionally approved 17 applications on issues related to the CRA. Conditionally approved and denied CRA applications are summarized in each issue of the *Quarterly Journal*.

The OCC's Community Development Division also maintains programs and designs initiatives to encourage banks to help meet local credit needs. The division's activities in 1993 are summarized in the Comptroller's Report of Operations section of this issue.

Consumer Complaints

The Federal Trade Commission Act of 1975 (15 U.S.C. 41, *et seq.*) requires the Office of the Comptroller of the Currency (OCC) to receive and take appropriate action upon complaints directed against national banks and to annually report these activities to Congress.

During 1993, the OCC received 16,520 written consumer complaints against national banks. By February 15, 1994, 15,610, 94 percent, of these complaints were in process of being resolved. The average resolution time in 1993 was 31 days.

The largest number of complaints involved loans. This type of complaint accounted for 52 percent of the total complaints received and resolved in 1993. Credit cards were involved in 44 percent of these lending complaints.

Complaints involving deposits were the next largest category, 23 percent of the total resolved complaints. No other category of complaints equaled or exceeded 5 percent of the total.

*Consumer Complaints, 1993**

Resolution Code	*Deposits*	*Home Equity Loans*	*Credit Cards*	*Other Loans*	*Not a National Bank*	*All Other*	*Total*
Withdrawn, no reply necessary	142	8	125	181	6	194	656
Bank error	312	20	261	293		104	990
Bank legally correct	1,066	64	1,525	1,192		341	4,188
Communication problem	339	17	222	316		95	989
Referrals to other agencies	64	13	74	203	2,239	100	2,693
Information provided	352	8	614	930	13	315	2,232
Settled by mutual consent	557	45	528	615		213	1,958
Violation of law	17	10	50	33		18	128
Factual dispute	362	5	126	294		142	929
In/for litigation	310	3	80	313		141	847
Total	3,521	193	3,605	4,370	2,258	1,663	15,610

** Written complaints received in 1993 and resolved by February 15, 1994.*

Change in Bank Control Act

The Change in Bank Control Act of 1978 (CBCA) requires parties seeking control of a bank or bank holding company to obtain approval from the appropriate federal banking agency before the transaction occurs. Under the act, the Office of the Comptroller of the Currency is responsible for reviewing changes in the control of national banks, including:

- the financial capacity, competence, experience, and integrity of the acquiring party;
- the effect on the financial condition of the bank to be acquired; and
- the effect on competition in any relevant market.

Under the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the OCC must also consider the effect of the transaction on the Bank Insurance Fund.

Public notice of each proposed change in control is published in the newspaper of largest general circulation in the community where the national bank's home office is located. In addition, the OCC assesses the qualifications of each party seeking control and routinely investigates and verifies information contained in each change in control notice.

The OCC acted on 30 proposed changes in control of national banks in 1993. It consented to 21 proposals, disapproved 5, and 4 were withdrawn before a decision was reached. Consistent with the OCC's previous experience, the disapprovals related primarily to unsatisfactory financial capacity, experience, integrity, or competence of the acquiring party.

*Change in Bank Control Act**
1988 - 1993

Year	*Acted On*	*Not Disapproved*	*Disapproved*	*Withdrawn*
1993	30	21	5	4
1992	29	21	4	4
1991	15	6	6	3
1990	42	32	5	5
1989	55	48	3	4
1988	42	34	4	4

**Notices processed, with disposition*

Recent Corporate Decisions

On October 27, 1993, the OCC approved a precedential corporate reorganization when it granted approval for First Union National Bank of Georgia, Atlanta, Georgia, to merge with a bank in liquidation, First American Bank of Georgia, National Association (in liquidation), Atlanta, Georgia. The OCC concluded that it is legally permissible for a bank in liquidation to participate in a merger.

On November 5, 1993, the OCC approved a bank's merger with an interim bank that was structured to freeze out minority shareholders and allow the bank's parent holding company to acquire 100 percent of the bank's common stock. The application was originally submitted in late 1992, but was withdrawn after the OCC expressed concerns about the disparate treatment given to the majority shareholder, who was allowed to exchange his bank stock for holding company stock just prior to the application being filed, without the exchange being disclosed to the other shareholders. The transaction was subsequently disclosed to shareholders. The OCC approved the merger after it was concluded that the disclosures were proper.

On November 10, 1993, the OCC approved the application of Midlantic National Bank, New Jersey, Newark, New Jersey, to purchase the assets and liabilities of an affiliate in Florida, which was in process of liquidating. The New Jersey bank was not assuming all liabilities. The parent indemnified the Florida bank for 12 months against any contingent liabilities. Florida state law requires state entities entering liquidation to provide for contingent liabilities for a 3-year period. The OCC determined that the 12-month period proposed by the parent was satisfactory because the targeted affiliate was a national bank whose liquidation was governed by federal statutes, the parent would continue to exist, and the Florida bank had basically been in liquidation for the past two years.

This section summarizes selected corporate decisions completed during the fourth quarter of 1993. The cases are noteworthy because they represent issues of importance or unusual methods of accomplishing a particular expansion activity. Copies of the public sections of the applications may be obtained from the Communications Division of the OCC in Washington, DC.

The section related to the CRA is provided pursuant to Banking Circular 238, dated June 15, 1989. These summaries are designed to provide easier access to OCC decisions on national bank corporate applications that have been conditionally approved or denied on grounds related to CRA performance. The decision letters are published monthly in the OCC's Interpretations series and are also available to the public from the Communications Division.

On November 24, 1993, the OCC conditionally approved the conversion of Sears Savings Bank, F.S.B., Vernon Hills, Illinois, to a national bank with the title, "PNC Mortgage Bank, National Association, Pittsburgh, Pennsylvania." In conjunction with the conversion approval, the OCC approved fiduciary powers for the bank and the acquisition of five operating subsidiaries. A sixth operating subsidiary was inactive and was to be disposed of within six months. This proposal involved the acquisition of Sears Savings Bank by PNC Bank Corporation, the relocation of Sears from California to Pittsburgh, conversion of Sears to a national bank, and the acquisition of the operating subsidiaries, including Sears Mortgage Corporation (the subject of a Ralph Nader study citing discriminatory practices). The OCC examined the mortgage company and concluded that there were no Community Reinvestment Act or Fair Lending concerns. The approval was made conditional on the prior relocation of Sears' head office from California to Pennsylvania, no low quality assets being transferred to any affiliate banks, all regulatory approvals being obtained, and the inactive subsidiary being dissolved.

On November 30, 1993, the OCC granted conditional approval to a proposal from Household Bank, F.S.B., Newport Beach, California, to charter a CEBA credit card bank to be titled, "Household Bank (SB), National Association, Las Vegas, Nevada" and for the proposed bank to acquire an operating subsidiary. The proposed bank would be used primarily to issue and service the General Motors (GM) credit card. The operating subsidiary would facilitate securitization of the GM credit card receivables for sale in secondary markets. Because the proposed bank would be an operating subsidiary of a thrift, the proposal raised several legal and policy issues, including the immediate transfer of existing GM credit card balances to the new bank. However, such a transfer was considered to be a "covered transaction" under Section 23A of the Bank Holding Company Act, requiring a waiver from the Federal Reserve. The charter approval was conditional on the bank receiving deposit insurance before opening and receiving a Section 23A waiver from the Federal Reserve before acquiring the operating subsidiary. The bank received approval for FDIC insurance and opened for business on December 1, 1993.

On December 7, 1993, the OCC approved an application from Fleet Bank, National Association, Hartford, Connecticut, to establish a mobile CBCT branch. Con-

necticut law had been changed effective October 1, 1993, permitting such branches.

On December 9, 1993, the OCC granted approval to a bank's request to declare an emergency requiring expeditious processing (10-day/5-day) of a merger application. The bank was acquiring a troubled institution that had been seeking a buyer for much of the year. The target bank had continued to experience significant liquidity problems. The OCC approved the request because there was a strong likelihood the bank could become liquidity insolvent before the merger could be completed under normal processing time frames. The merger was subsequently approved and the transaction consummated on December 31, 1993.

On December 17, 1993, the OCC conditionally approved First Union Corporation's application to establish a new national bank whose activities would be limited to second mortgage home equity lending. The activities were currently being conducted in an operating subsidiary of First Union's lead bank in Charlotte, North Carolina but, once the new bank were opened, these activities would be transferred to that bank. One area of concern with the proposal was how the bank would meet its obligations under the Community Reinvestment Act (CRA). The OCC concluded that since the bank's local delineated community was Mecklenburg County, the same as the lead bank, that some reliance could and should be placed on the CRA activities of the lead bank and holding company. The approval was conditional on the bank receiving and maintaining FDIC insurance. Certain other standard conditions specific to limited purpose national banks also applied.

On December 17, 1993, the OCC approved an application from Shawmut Bank, Connecticut, National Association, Hartford, Connecticut, to acquire a mortgage company from its parent as an operating subsidiary. The mortgage company had been cited by the Federal Reserve and the Department of Justice for violating fair lending laws. A consent decree and statements made by the Department of Justice in a press release revealed that the department was satisfied with the mortgage company's current operations. OCC's transmittal letter specifically cited our expectations that Shawmut Mortgage Company would adhere to the specific requirements of the consent decree.

On December 30, 1993, the OCC granted approval for Sears, Roebuck and Company to acquire a troubled national bank. Sears planned to convert the bank into a CEBA credit card bank after the change of control occurred. To meet the requirements under CEBA and avoid being considered a bank holding company, Sears entered into a purchase and assumption agreement with Biltmore National Bank, Phoenix, Arizona, whereby Biltmore would acquire all of the ineligible deposits and all but $1 million of the ineligible assets. The remaining $1 million in assets would be sold to affiliates of Sears. The purchase and assumption with Biltmore and sale of assets to Sears' affiliates would allow the bank to meet CEBA requirements. The Federal Reserve reviewed the proposed transaction and provided a written statement that Sears would not be considered a bank holding company. The change in bank control and related purchase and assumption were consummated on January 31, 1994.

On December 30, 1993, the OCC disapproved a Change in Bank Control Act notice because the applicant had failed to disclose that the bank he owned and operated as its president was under investigation by the Drug Enforcement Administration and other agencies for money laundering. The applicant's failure to disclose this information reflected negatively on his integrity and raised questions about the appropriateness of his ownership of a national bank.

Decisions Related to the Community Reinvestment Act

On November 24, 1993, the OCC granted conditional approval to an application filed by California National Bank, San Francisco, California, to relocate its San Jose branch to Fremont. The OCC made the approval conditional because the bank had demonstrated a less than satisfactory performance under the Community Reinvestment Act during a recent OCC examination of the bank. The conditions required California National Bank to submit a letter to the Western District Office clearly indicating plans for actions the board of directors will take to correct any remaining Community Reinvestment Act deficiencies noted during the most recent examination.

On December 9, 1993, the OCC disapproved an application filed by Mayde Creek Bank, Katy, Texas to establish a CBCT branch in Katy, Texas. The disapproval is based on the bank's less than satisfactory performance under the Community Reinvestment Act (CRA). The bank's less than satisfactory performance was found in its incomplete ascertainment of community credit needs, failure to develop a complete CRA program, the board's limited involvement in community development programs, and the low volume of lending in the bank's delineated community.

On December 22, 1993, the OCC granted conditional approval to Central Fidelity Bank, Richmond, Virginia, to convert to a national bank under the tile "Central Fidelity National Bank." The OCC made the approval conditional because the bank had demonstrated a less than satisfactory performance under the Community

Reinvestment Act during a recent Federal Reserve examination of the bank. The conditions required Central Fidelity Bank to submit a formal comprehensive CRA/Compliance action plan that is acceptable to the district office. The action plan must detail the date of implementation and the name of the bank officer responsible for implementation.

Special Supervision and Enforcement Activities

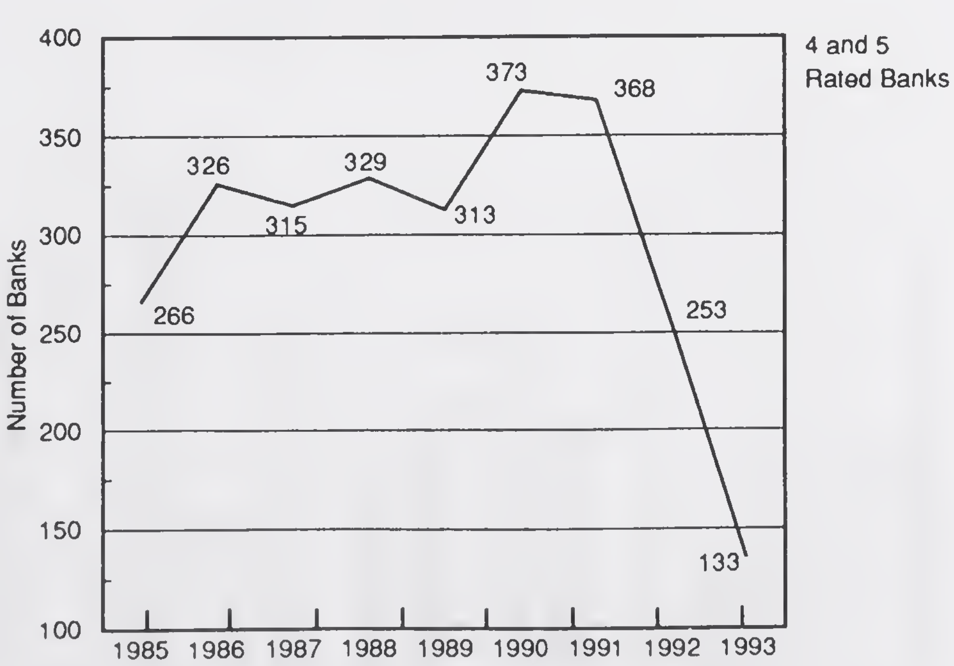
This section includes information on problem national banks, national bank failures, and enforcement actions. Data on problem banks and bank failures is provided by OCC's Special Supervision Division in Washington. Information on enforcement actions is provided by Special Supervision together with the Enforcement and Compliance Division of the Law Department. The latter is principally responsible for presenting and litigating administrative actions on the OCC's behalf against banks requiring special supervision.

Problem National Banks

Problem banks represent approximately 3.8 percent of the national bank population. After reaching a high of 373 at the end of 1990, the number of problem national banks declined significantly to 133 as of December 31, 1993. This decline is a direct result of the improvement in the condition of the banking system brought about by an extended period of low interest rates and other favorable economic conditions.

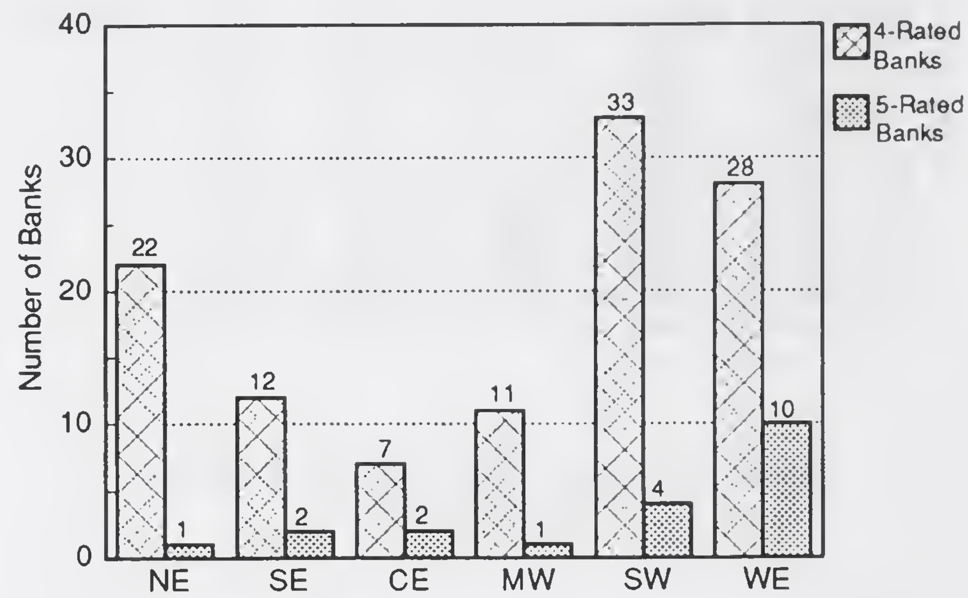
Although the number of problem banks continued to decline in all six districts, the Southwestern District showed the most dramatic decline. The number of problem banks in the Southwest declined from 209 at year-end 1991 to 37 at year-end 1993. For the first time in many years, the Southwestern District no longer has the largest number of problem banks. The Western District now has one more — 38.

Problem National Bank
Historical Trend Line



Source: Special Supervision

Problem Banks By District
(as of December 31, 1993)

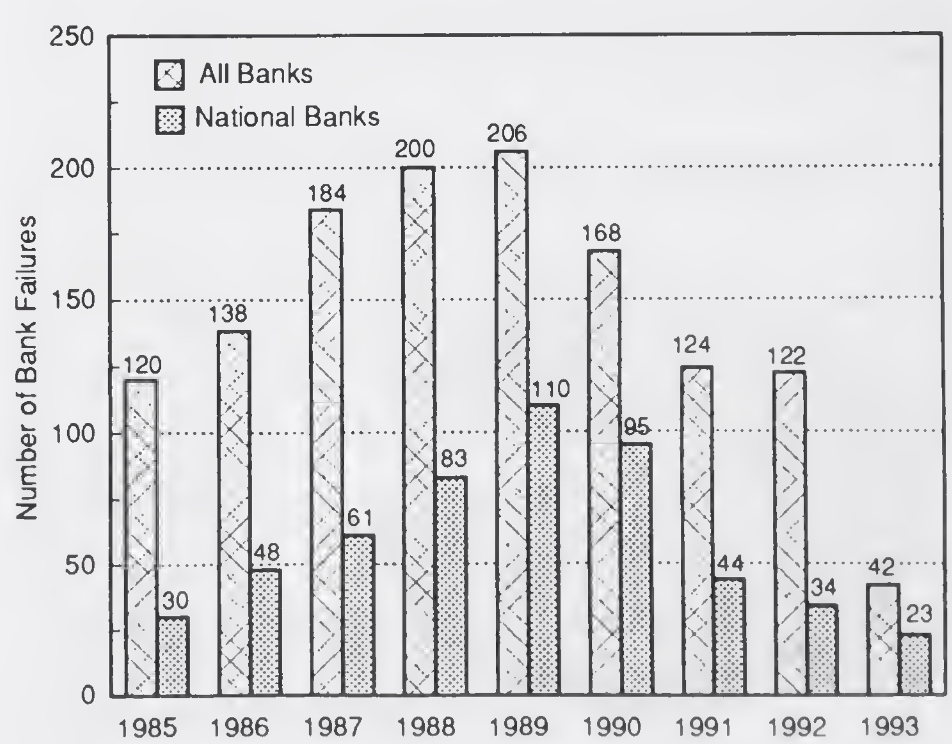


Source: Special Supervision

National Bank Failures

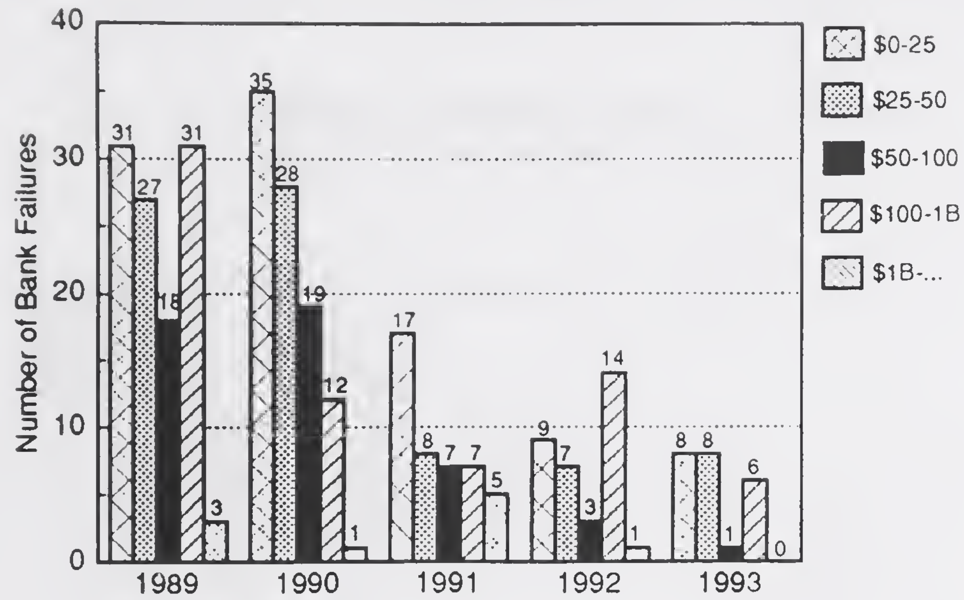
During 1993, there were 42 commercial bank failures, 23 of which (55 percent) were national banks. This is the lowest number of failures since 1984, when 17 national banks failed. The dollar volume of national bank failures ($1.53 billion) is the lowest since 1985 ($1.48 billion). The average size of a failed national bank in 1993 was $66 million.

Bank Failures



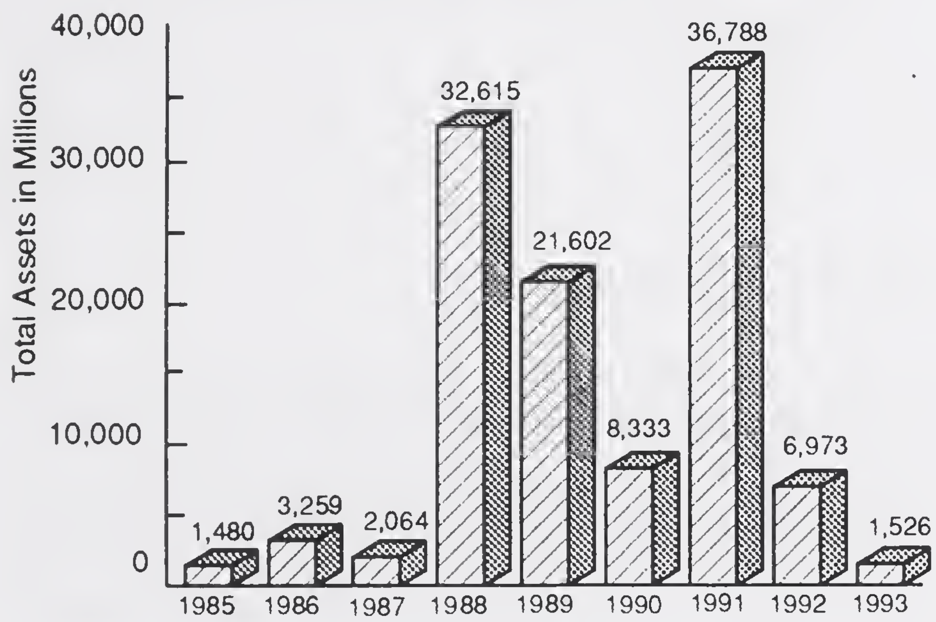
Source: Special Supervision

Failed National Banks
by Asset Size



Source: Special Supervision

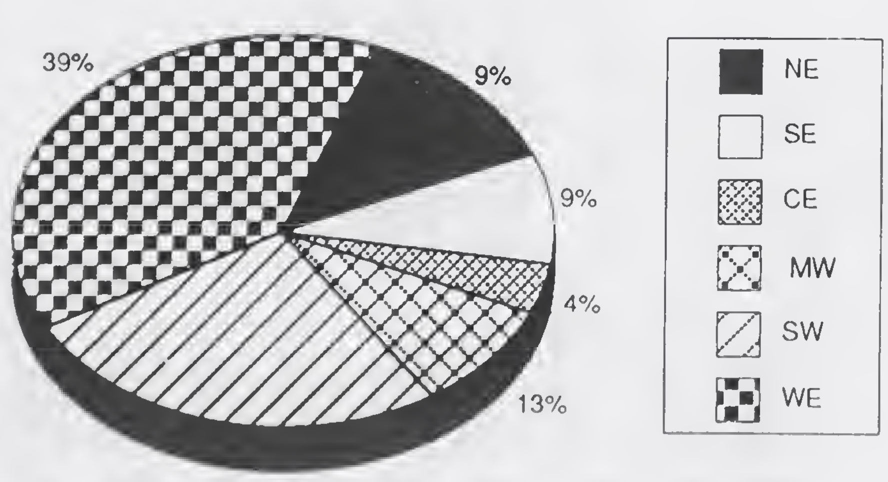
Dollar Volume of National Bank Failures
(in millions)



Source: Special Supervision

National bank failures in 1993 occurred in every district. The Western District experienced more failures than the Southwest in 1993, a change from recent years.

National Bank Failures for 1993 by District



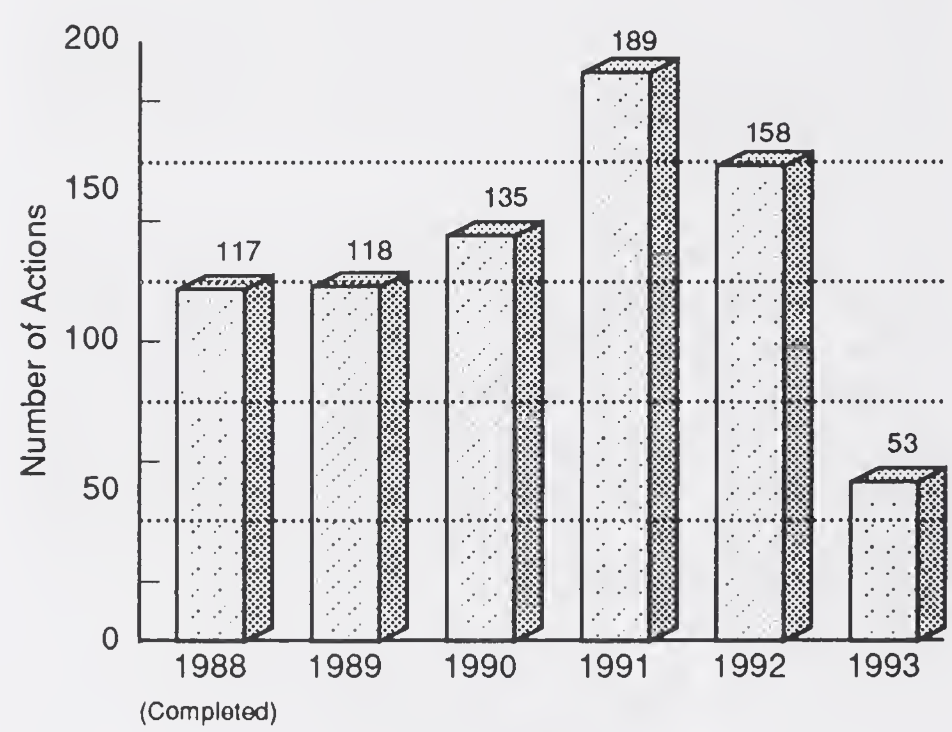
Source: Special Supervision

Enforcement Actions

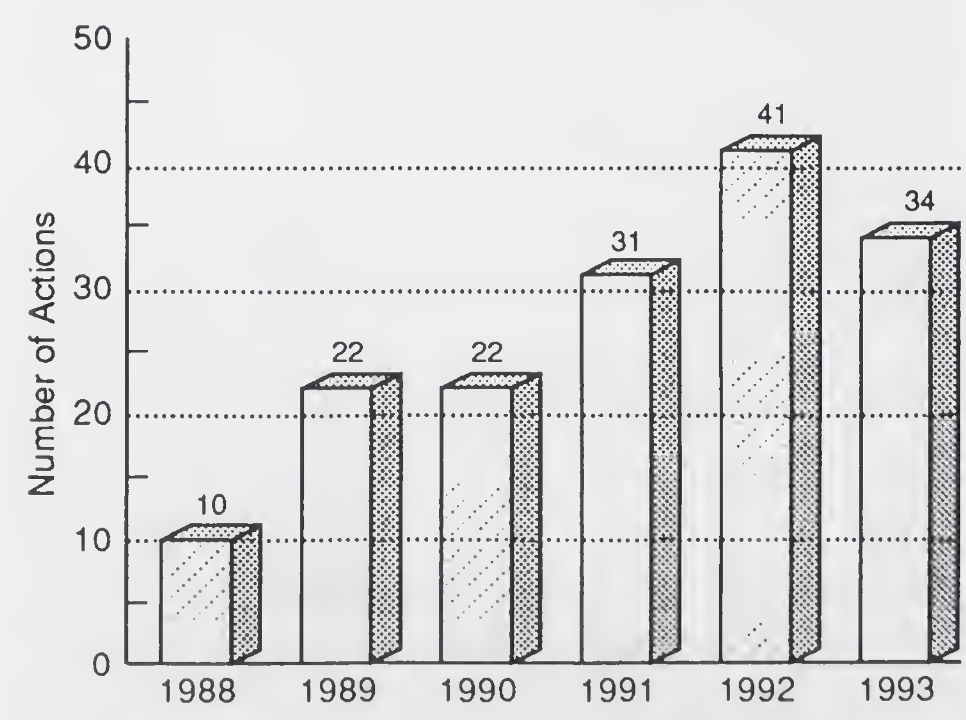
The OCC has a number of remedies with which to carry out its supervisory responsibilities. When it identifies safety or soundness or compliance problems, these remedies range from informal advice and moral suasion to formal enforcement actions. These mechanisms are designed to achieve expeditious corrective and remedial action to return the bank to a safe and sound condition.

The OCC's informal enforcement actions include commitment letters and memoranda of understanding (MOUs). Informal actions are meant to handle less serious supervisory problems identified by the OCC in its supervision of national banks. Although informal actions are not legally enforceable, failure to honor them will provide strong evidence of the need for the OCC to take formal action.

Commitment Letters

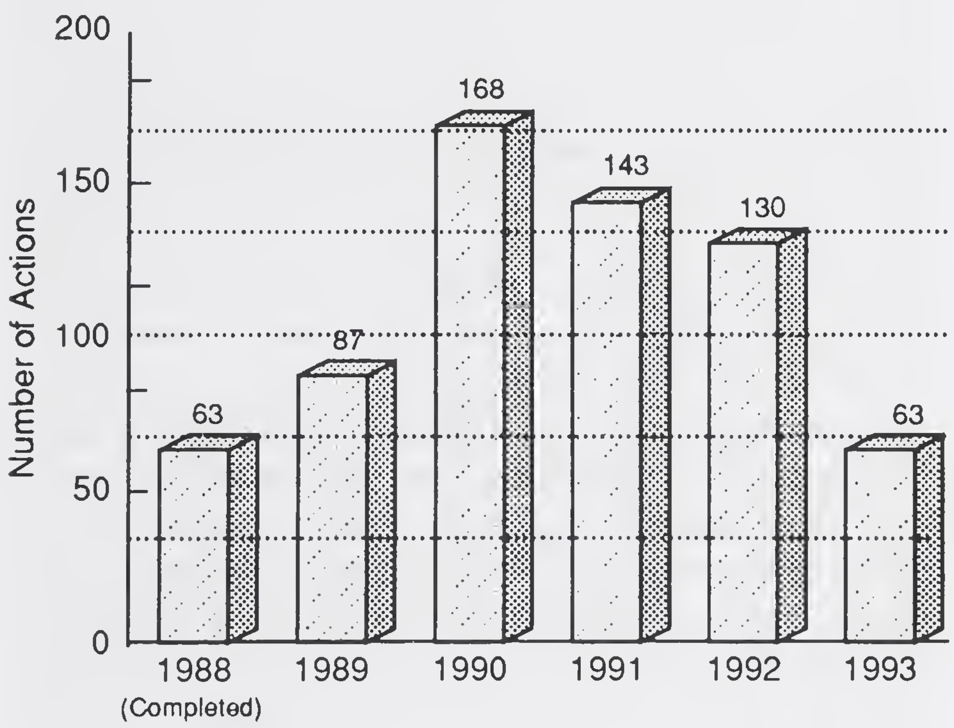


Memorandums of Understanding

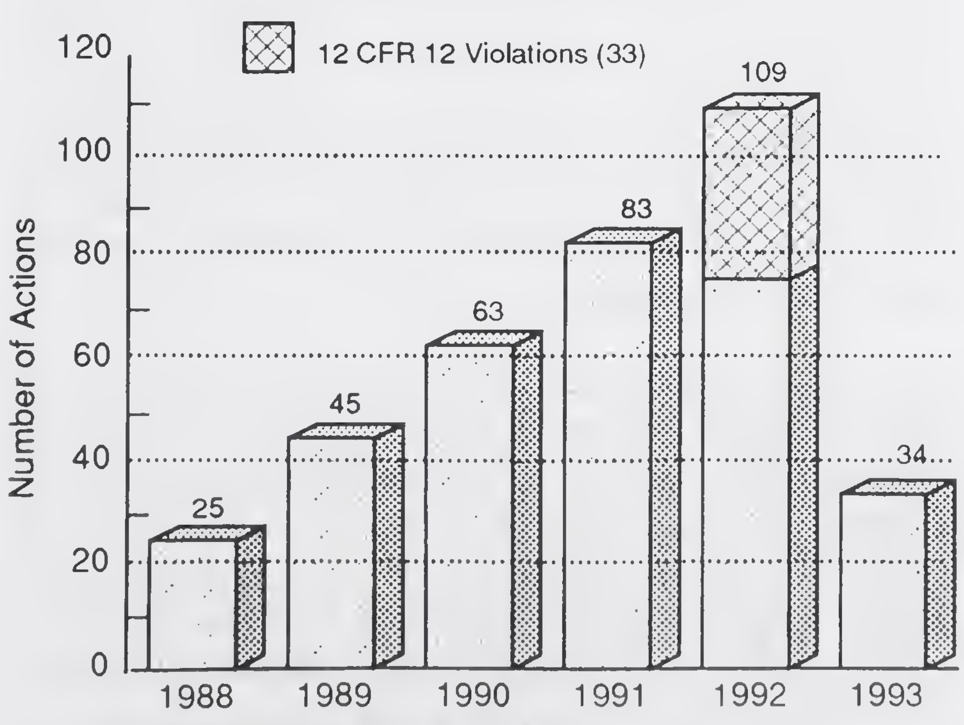


The most common types of formal actions issued by the OCC over the past several years have been formal agreements, cease and desist orders, civil money penalties (CMPs), and removals. Formal agreements are documents signed by a national bank's board of directors and the OCC in which specific corrective and remedial measures are enumerated as necessary to return the bank to a safe and sound condition. Cease and desist orders, sometimes known as consent orders, may be legally enforced. Like a formal agreement, these orders contain a series of remedial measures in article form. CMPs are authorized for violations of laws, rules, regulations, formal written agreements, final orders, conditions imposed in writing, and, under certain circumstances, unsafe or unsound banking practices or breaches of fiduciary duty. The OCC occasionally is compelled to use removal orders to remove individuals who have violated the law or acted in an unsafe or unsound manner from the banking industry.

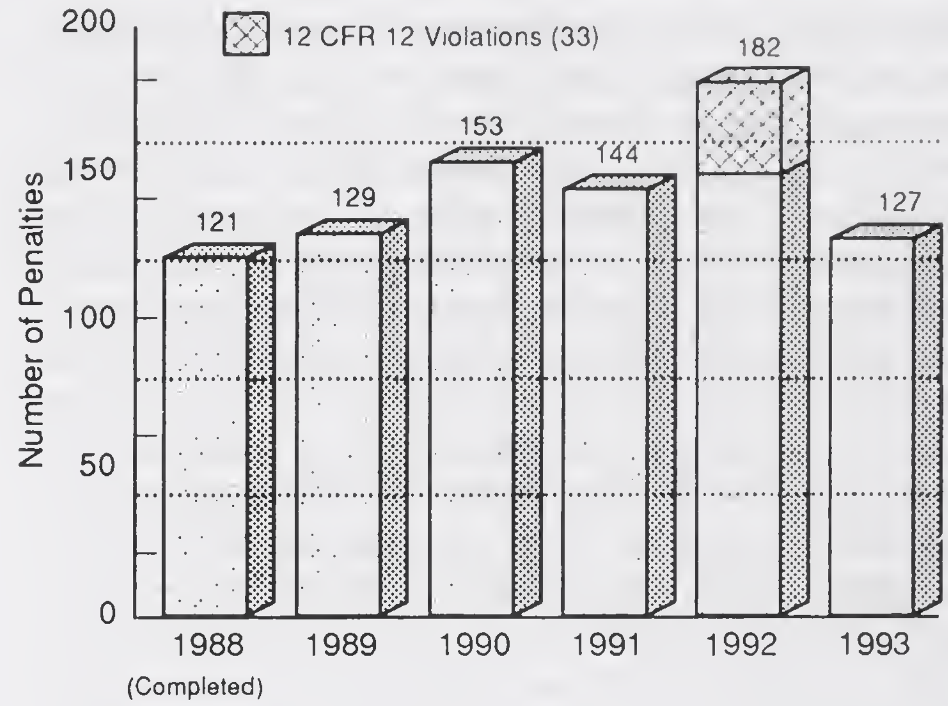
Formal Agreements



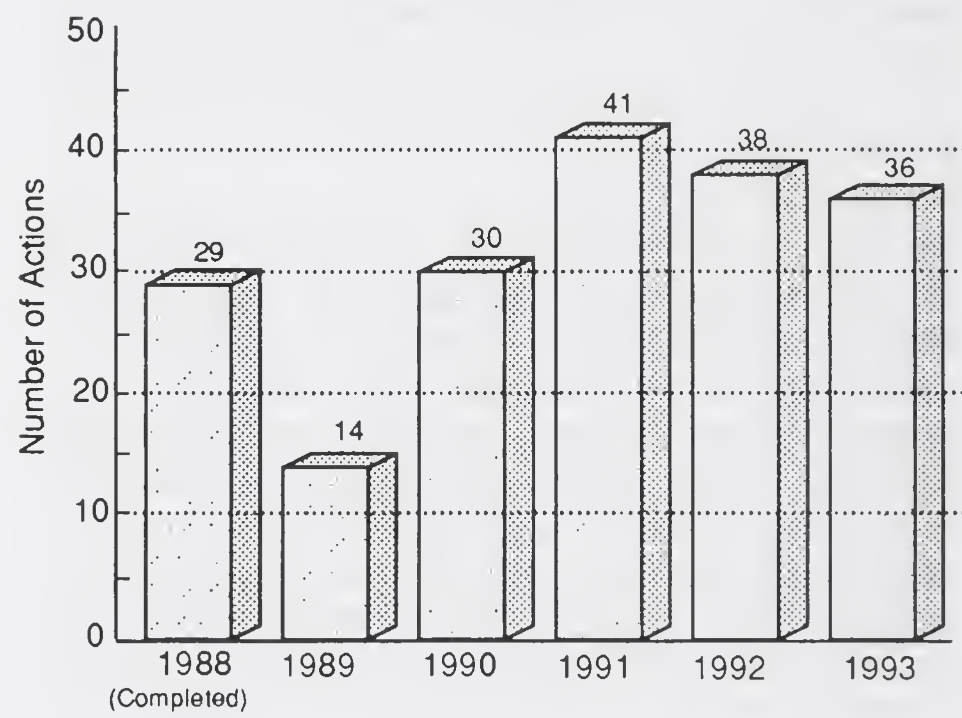
Orders to Cease and Desist



Civil Money Penalties



Orders of Removal



In addition, the OCC was given new authority under section 131 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) to take prompt corrective action (PCA) to resolve the problems of national banks determined to be "undercapitalized," "significantly undercapitalized," or "critically undercapitalized." When a bank becomes undercapitalized, it is required to submit a capital restoration plan. If a bank's problems are more severe, a PCA directive can also be issued. PCA directives require banks to take affirmative action or comply with supervisory restrictions. The purpose of the PCA legislation is to resolve a bank's problems at the least possible long-term cost to the deposit insurance fund. During 1993, 31 banks were required to submit a capital restoration plan, and six PCA directives were issued.

Recent Enforcement Cases

During May and August of 1993, an administrative hearing was held on a cease and desist proceeding against the First National Bank of Bellaire (Bellaire), Bellaire, Texas, the Mayde Creek Bank (Mayde Creek), Katy, Texas, and Texas National Bank (Baytown), Baytown, Texas. The OCC charged that Bellaire, Mayde Creek, and Baytown have been engaging in various unsafe and unsound practices primarily involving: (1) undue concentrations of credit; (2) lack of adequate supervision by management or the board of directors; and (3) incomplete and inaccurate books and records. In addition, the banks were also charged with several violations of laws and regulations including those relating to the national bank lending limit, 12 U.S.C. 84. Most of the alleged violations arose from extensions of credit by the banks to two individuals and their numerous closely-held corporations. In the case of Bellaire, these credits represented approximately 64 percent of the bank's gross loans, and in the case of Mayde Creek and Baytown, about 70 percent of each bank's gross loans. The matter is currently pending before an administrative law judge.

On July 15, 1993, a prompt corrective action (PCA) directive was issued to First Charter Bank, N.A., Beverly Hills, California, because the bank was found to be "significantly undercapitalized." The directive was effective immediately upon issuance and required the bank to: (1) cease accepting, renewing or rolling over brokered deposits and (2) submit a detailed liquidity plan. A second PCA directive was issued to First Charter on August 20, 1993, when the bank was deemed to be "undercapitalized." The second directive required the bank to: (1) increase its capital; (2) annually update its capital restoration plan; (3) pay dividends only with OCC permission; (4) appoint a qualified and capable CFO; (5) submit any proposed management contract or severance agreement to the OCC, which has veto authority over any proposed contract or agreement; (6) refile and republish an accurate March 31, 1993, call report and publish an accurate June 30, 1993, call report; (7) not compensate bank employees for attending board meetings; (8) obtain the OCC's prior approval before accepting a deed in lieu for one of the bank's loans; and (9) submit a copy of the outside auditor's management report to the OCC.

In July and August 1993, the OCC reached several settlements with institution-affiliated parties of the Citizens National Bank of Hammond, Hammond, New York, prior to the issuance of notices of assessment. The OCC alleged that several of the bank's former presidents had allowed a customer to maintain a secret overdraft for several years that was not reflected in the bank's records. The OCC charged that the bank's board of directors learned of this practice in early 1992, at a time when the overdraft had grown out of control, but allegedly engaged in a cover-up until October 1992. The OCC alleged that during this time, the overdraft credit line was left open, new money left the bank, and two false call reports were filed as part of a deliberate attempt to conceal. Former bank president Richard Farley consented to a removal from banking and agreed to pay both a civil money penalty (CMP) of $2,000 and $48,000 in restitution. Former bank counsel George Silver consented to a CMP of $2,000 and a restitution payment of $8,000. Director Edwin Hadlock consented to a CMP of $1,000 and restitution of $4,000. Director Donald Ceresoli, Sr., settled for a CMP of $1,000 and restitution of $3,500.

In August 1993, an administrative hearing was held regarding the OCC's action against Augustus I. Cavallari, former counsel to the Summit National Bank, Torrington, Connecticut. The OCC has charged Cavallari with violations of temporary and permanent cease and desist orders, unsafe and unsound practices, and breaches of fiduciary duty arising from his role in restructuring certain insider-related loans that resulted in a loss to the bank of approximately $600,000. The OCC is seeking to remove Cavallari from banking, assess a CMP of $250,000 against him, and obtain restitution of approximately $600,000. The matter is currently pending before an administrative law judge.

Danny R. Patton, a former officer of First National Bank & Trust Co., Nicholasville, Kentucky, stipulated to a removal order in August 1993. Patton was alleged to have been involved in a scheme to defraud the bank through loan transactions with a used car dealership with which the bank had a contract to provide financing for customers. The OCC alleged that Patton failed to record repossession of cars that had been purchased from the dealership and improperly applied the proceeds from repossessed autos, as well as using insurance proceeds to repay loans of other customers. In addition, Patton was alleged to have improperly released $100,000 from the dealership's account at the bank, a breach of the dealership's security agreement with the bank. Patton also allegedly fabricated committee minutes of the bank.

In early September and late October of 1993, an administrative hearing was held regarding the OCC's cease and desist action against the First National Bank of Chicago, Chicago, Illinois. The OCC charged the bank with violations of 12 CFR 9, breaches of its fiduciary duties, and unsafe and unsound banking practices. The alleged violations stem from the bank's continuing failure to honor the withdrawal requests of participants in Real Estate Collective Investment Fund F within the one-year time frame required by 12

CFR 9.18, the regulation governing collective investment funds. The OCC is seeking to have the bank comply with the regulation through the payment of $28 million to the participants. This payment reflects the amount owed by the bank as of the dates that withdrawal should have been permitted, plus interest. The matter is currently pending before an administrative law judge.

With the assistance of the U.S. Attorney for the District of Colorado, the OCC obtained a consent removal from Neil Allen, former president and director of Citizens' National Bank of Limon, Limon, Colorado, on September 20, 1993. The removal was based upon Allen's use of bank funds to satisfy personal debts. Allen pled guilty to two counts of bank fraud based upon these transactions and was sentenced to serve 21 months in prison and to pay the FDIC $150,000 in restitution. Because of this sentence and Allen's bankruptcy, the OCC decided not to proceed with a $165,000 civil money penalty assessment.

In October 1993, seven former directors and officers of Fallbrook National Bank (failed), Houston, Texas, agreed to settle CMP and removal actions brought by the OCC. Former chairman of the board Charles Soltis agreed to pay a $45,000 CMP, former president J. S. Winston consented to a CMP of $22,600, former vice-president Patricia LeLito agreed to a CMP of $12,550, and former president Stephen Marshall consented to a CMP of $2,000. All four of these former officers also consented to removal orders. Three additional directors consented to CMPs totaling $31,250. The CMPs were based, in part, on a series of alleged violations of the lending limit law, 12 U.S.C. 84, that occurred over several years and involved ten different borrowers. The CMPs were also based, in part, on several alleged violations of the call report requirements found at 12 U.S.C. 161, relating to the inflation of the value of repossessed assets and an under-reserved allowance for loan loss. The removals were based largely on participation in an alleged unsafe and unsound automobile lending program involving an outsider who brought high-risk loans to the bank. These loans were accepted without proper loan review, which resulted in an excessive number of repossessions.

In October 1993, the OCC settled CMP actions against directors Victor Granholm and A. Philip Bray of Sequoia National Bank, San Francisco, California. Both consented to pay CMPs of $4,000 prior to the receipt of notices of assessment. The intended action against these two directors was based on their alleged noncompliance with a consent order entered into by the bank in 1992.

In November 1993, former president Jim McBee, of the First National Bank of Texas (failed), Webster, Texas, consented to a $20,000 CMP. McBee was alleged to have participated in a plan to finance the purchase of the bank's stock on the security of that stock, in violation of 12 U.S.C. 83. He also allegedly engaged in an arrangement to pay bonuses to loan officers based on the sale of credit life insurance, in excess of 5 percent of their salaries, in violation of 12 CFR 2.4. In addition, McBee's son, Mark McBee, a former vice-president and director, was sent a letter of reprimand for his practice of withdrawing expense money with little or no documentation.

In November 1993, former director Masashi Kawasaki of the First National Bank in Kaufman (failed), Kaufman, Texas, consented to pay restitution in the amount of $25,000 to the FDIC. Kawasaki allegedly received payments from a brokerage corporation set up by bank insiders, for the purpose of brokering note sales to the bank. Several officers, directors and shareholders, including Kawasaki, also allegedly received excessive "commissions" using bank money channelled through the brokerage agency.

On November 10, 1993, the OCC agreed to settle a CMP action against Tracy DuBose, former director of Park 45 National Bank, Spring, Texas. On December 13, 1993, the OCC also reached settlement agreements with Roland L. Arnold, former president of Park 45, and Maurice Doke and R.J. Hoyland, III, former directors of the bank. These actions were based on alleged violations of the legal lending limit, 12 U.S.C. 84, which caused a loss to the bank in excess of $400,000. DuBose consented to a CMP of $5,500, Doke consented to a removal order, Hoyland consented to a CMP of $5,500, and Arnold consented to a CMP of $9,750.

On November 12, 1993, Jon D. Grams, former president of College Boulevard National Bank, Overland Park, Kansas, consented to a removal order. The OCC initiated this action alleging that Grams was responsible for unsafe and unsound practices in the area of loan administration, call report violations, breaches of fiduciary duty involving the use of bank funds to pay personal expenses, and a violation of the laws relating to political contributions.

On December 13, 1993, the OCC settled a CMP action against Richard J. Baker, former president of Eagle Bank of Champaign County, N.A., Rantoul, Illinois. The action was based on alleged violations of a previous consent order, filing of an inaccurate call report for June 30, 1992, and the unsafe and unsound banking practice of failing to initiate and undertake a proper investigation of instances of fraudulent accounting and misapplication of the bank's funds. Baker consented to a CMP of $1,000.

On December 14, 1993, Michael V. Neff, former president of West Columbia National Bank, West Columbia, Texas, consented to a removal order. The OCC had charged Neff with originating loans in the name of others for his own benefit, in order to avoid citation for violations of the insider lending limits, 12 U.S.C. 375a, 375b. In addition, the OCC had alleged that Neff misrepresented the collateral status of a loan, caused significant understatements in the bank's allowance for loan loss account, falsely claimed reimbursement for business expenses, and directed a year-end bonus payment to himself that the board had not authorized.

Six former executive officers of Hibernia National Bank and the former chairman of Hibernia Corporation, New Orleans, Louisiana, agreed to pay CMPs ranging from $1,000 to $17,000. The fines arose out of alleged violations of the call report requirements found at 12 U.S.C. 161. The OCC charged that Hibernia National Bank filed inaccurate call reports for eight consecutive quarters between June 30, 1989 and March 31, 1991. The bank also was alleged to have underreported past due loans and loans in nonaccrual status by as much as $42 million in one quarter and overstated income by as much as $4 million in one quarter.

Appeals Process

On June 11, 1993, the OCC formalized procedures for national banks to appeal agency decisions and actions. If a disagreement arises during the supervisory process, it is OCC policy to resolve the dispute fairly and expeditiously in an informal, amicable manner. However, if disagreements cannot be resolved through informal discussions, national banks are encouraged to seek a further review of the OCC decisions or actions that are in dispute. National banks have the option of filing such appeals either with the deputy comptroller or district administrator of the applicable district or directly with the Ombudsman's Office. The choice of where the appeal is filed is entirely up to the bank.

A critical element of this revised process was the creation of the position of ombudsman. Effective September 15, 1993, Samuel P. Golden was appointed as the first OCC ombudsman. The Ombudsman's Office functions totally outside of the bank supervision and examination arena and reports directly to the Comptroller of the Currency. With the consent of the Comptroller, the ombudsman has the discretion to supersede any agency decision or action during the resolution of an appealable matter.

The core philosophy of this revised process and the primary mission of the Ombudsman's Office is to ensure that:

- Applicable agency decisions and actions are reviewed fairly and expeditiously.
- No one is disadvantaged by the filing of an appeal.

A key part of the ombudsman's duties is ongoing communication and liaison with the banking industry and OCC examination staff. Since assuming his role last September, Samuel Golden has met with diverse groups of bankers in each region of the country to discuss thoroughly the revised appeals process. Similar meetings have been held in each of the OCC's districts with all OCC managers involved in supervising banks. These meetings frequently included large numbers of examiners. With each audience, the ombudsman emphasized the agency's complete lack of tolerance for any element of retribution and retaliation in any aspect of its supervisory activities.

Since September, appeals have been filed with the Ombudsman's Office by banks located in each of the OCC districts. To date, the appeals have covered a broad range of subjects, from specific transactional matters to broad policy issues. The real benefit of the process has been raised awareness of issues brought up by appeals — issues that have an impact on a broad population of banks. As a result, we have improved and clarified the relevant agency policies, guidelines, and procedures. Although the process focuses on the circumstances of individual institutions, the results benefit all national banks.

Beginning with this issue of the *Quarterly Journal*, detailed summaries of each appeal decision made during the preceding quarter will be provided in this section. Because the confidentiality of appeals is critically important, these summaries will not include the names of banks, bankers, or OCC staff members.

Case 1: Appeal of CAMEL Rating

Background

A formal appeal was received contesting the assigned CAMEL rating of "3." (The composite CAMEL rating summarizes the examiner's assessment of a bank's capital, assets, management, earnings, and liquidity.) The appeal letter cited the following:

- The bank's classified assets totaled 20 percent of capital.
- The bank's capital leverage ratio was roughly 10 percent.
- The bank's earnings have been in excess of a 1.50 return on assets (ROA) for many years and never below 1.15 in the last 10 years.

The District Supervisory Review Committee believed that weaknesses in management and control systems were severe enough to outweigh favorable ratings for the bank's capital, asset quality, earnings, and liquidity. The bank disagreed and appealed the rating.

Discussion

OCC's low rating of bank management was based on two factors. First, a loan officer who was handling a portfolio of third-party paper from a real estate developer had himself purchased property from the developer at a below-market price. The transaction was not disclosed to the bank's board of directors. When the transaction was discovered, the bank changed the loan

officer handling the account and requested that the officer deed the property back to the developer. The bank also hired an outside auditor to verify borrower identity, borrower asset information, and collateral existence.

Second, the OCC identified weaknesses in the bank's credit administration practices. The bank made loans primarily on the basis of collateral and character. Most of the loans reviewed by the OCC lacked formal analyses of repayment capacity. Further, the bank had not established any limit on third-party paper. Before the examination, the bank had not done any independent verification of the developer's financial information and had not performed any independent verifications on appraisals submitted by the developer.

Conclusion

Ombudsman found that OCC's concerns over the handling of third-party paper, coupled with the account officer's conflict of interest, were fully justified. However, the bank acted quickly to obtain an independent audit of the third-party paper and to change the loan officer. The OCC agreed that those actions should alleviate the potential financial impact of the former loan officer's actions on the bank.

On the issue of poor credit administration, the ombudsman found that the bank had a long track record of selecting borrowers who were sound credit risks. Net loan losses had been minimal for many years, and operating earnings have been consistently strong.

In light of the bank's immediate actions concerning the third-party paper and its consistent record of strong credit quality, the composite CAMEL rating was upgraded to a "2," provided that the bank adopts a board resolution to address the credit administration deficiencies. The bank will work with the district office to ensure that this board resolution adequately addresses the OCC's concerns. The district will amend the applicable examination report pages and MIS reports to reflect the CAMEL rating change when it receives an acceptable board resolution.

Case 2: Appeal of Legal Lending Limit Violation

Background

In a 1993 examination, OCC found that a bank had violated the legal lending limit, 12 U.S.C. 84. OCC considered loans to an individual and a corporation to constitute a loan to a common enterprise based on the following:

- The corporation was 100 percent owned by the individual.
- A common enterprise existed under section 32.5(a)(iii) of 12 U.S.C. 84, because the loans were related through common control.
- A presumption of control also existed under section 32.5(a)(iv)(B), because the individual could elect a majority of directors.
- The individual received a direct benefit, because without the loan he would not be able to receive the benefit of the income derived from the project. The company could not exist without the debt, and the individual would be called upon in the event of default.

The bank contended that a common enterprise did not exist because there was not substantial interdependence between the individual and the corporation. During the examination, the bank did not provide any financial documentation to support its contention.

Discussion

According to 12 CFR 32.5(a)(1), loans or extensions of credit to one person will be attributed to other persons, for purposes of this part, when (i) the proceeds of the loans or extensions of credit are to be used for the direct benefit of the other person or persons, or (ii) a "common enterprise" is deemed to exist between the persons. A "common enterprise" is said to exist in four different circumstances. The third circumstance is as follows:

> Where loans or extensions of credit are made to persons who are related through common control, including where one person is controlled by another person, a "common enterprise" will be deemed to exist if the persons are engaged in interdependent businesses or there is substantial financial interdependence among them. A "common enterprise" will be deemed to exist when 50 percent or more of one person's gross receipts or gross expenditures (on an annual basis) are derived from transactions with one or more persons related through common control.

Conclusion

In the appeal, the bank presented new information that confirmed that the source of repayment for the corporation had historically and consistently been income derived from the assets of the corporation. The bank also included financial information that showed that

only 12 percent of the individual's income was derived from the corporation.

The bank and the examiners agreed that common control did exist; however, common control, alone, is insufficient to establish a common enterprise under 12 CFR 32.5 (a) (2) (iii). The parties must also be either engaged in interdependent businesses or be substantially interdependent. Based on the fact that the corporation was financially independent and that less than 50 percent of the individual's income was derived from the corporation, the ombudsman found that no common enterprise existed. The violation of law was removed from the bank's report of examination.

Case 3: Appeal of Accounting Requirement

Background

An individual purchased 98.4 percent of the outstanding stock of a bank. The bank then filed a formal appeal requesting that the OCC waive the requirement that the bank apply push-down accounting, and allow the bank to account for the acquisition under purchase accounting. Because the purchase price of the institution was 84 percent of the bank's total capital, the use of push-down accounting would result in a substantial decrease in the bank's capital ratios. Bank management pointed out that the reduction in capital not only would reduce capital ratios but would also lower the bank's legal lending limit and restrict the level of short-term growth. It could also have a negative effect on customers' view of the bank's strength and financial condition.

Discussion

The FFIEC Consolidated Reports of Condition and Income Instructions state in the Glossary Section under "Business Combinations":

> Push-down accounting is the establishment of a new accounting basis for a bank in its separate financial statements as a result of a substantive change in control. Under push-down accounting, when a bank is acquired, yet retains its separate corporate existence, the assets and liabilities of the acquired bank are restated to their fair values as of the acquisition date. These values, including any goodwill, are reflected in the separate financial statements of the bank's parent.
>
> Push-down accounting will be *required* for purposes of the Reports of Condition and Income if a direct or indirect change in control of at least 95 percent of the voting stock of the bank has occurred, and the bank does not have an outstanding issue of publicly traded debt or preferred stock. Push-down accounting will also be *required* if the bank's separate financial statements are presented on a push-down basis in reports filed with the Securities and Exchange Commission. Push-down accounting may also be used when a direct or indirect change in control of at least 80 percent, but less than 95 percent, of the voting stock of the bank has occurred.

Conclusion

As noted above, regulatory policy requires that purchase acquisition adjustments be pushed down and recorded on the financial statements of the bank whenever a change in control of at least 95 percent occurs. This policy, which records the assets and liabilities at fair market value based on the new owner's purchase price, best reflects the economic substance of the sale transaction. Because of the structure of the change in control in this particular bank, the ombudsman could not grant a waiver of the use of push-down accounting.

Although push-down accounting reflects the economic substance of this type of sale transaction, the ombudsman agreed that the use of this method can reduce capital ratios, restrict short-term growth, and have other adverse effects. Because this requirement could result in similar negative effects in other bank sale transactions, the OCC encourages any bank contemplating a change in control to seek expert accounting advice to ensure that the structure of the transaction does not limit flexibility. If less than 95 percent of the shares are traded, the OCC as the primary regulator has the flexibility to waive the use of push-down accounting when appropriate.

Case 4: Appeal of Violation of Rule on Loans to Insiders

Background

The OCC had found that a bank had violated 12 CFR 215.4(1) — Terms and Creditworthiness of Loans to Directors, Officers or Principal Shareholders. The bank had made a loan to an insider at an interest rate significantly below (200-300 basis points) the rate offered to any other customers of the bank. The bank contended the rate was based on the deposit relationship that the borrower had at the bank and not on the fact that the individual was an insider.

Discussion

Regulation O states that no member bank may extend credit to any of its executive officers, directors, or

principal shareholders or to any related interest of those persons unless the extension of credit:

(1) Is made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions by the bank with other persons not covered by this part of the regulation and who are not employed by the bank, and

(2) Does not involve more than the normal risk of repayment or present other unfavorable features.

The statute and regulation provide no guidelines for determining whether "substantially the same terms" were given in a "comparable transaction." Therefore, the OCC has considerable discretion in deciding whether a bank's extensions of credit to a borrower are made on preferential terms. Under a narrow interpretation of this section, deposit relationships would not be considered sufficient justification for a lower interest rate unless the amounts on deposit with the bank were specifically available as security for the loan.

However, the OCC has traditionally interpreted this section more expansively. The starting point in the Regulation O analysis is whether a comparable non-insider received the same credit terms as the insider. Therefore, if a bank can show that it has consistently applied the policy of extending credit on more favorable terms to its large depositors, regardless of insider status, then a violation has not occurred. Without a formal pricing policy that takes into consideration a borrower's deposits, it would be difficult for a bank to show that all large depositors are treated equally.

Conclusion

The ombudsman found that the bank had violated Regulation O, because it was unable to show that any other borrowers received comparable rates because of large deposit relationships. The ombudsman encouraged the bank to establish a formal pricing system that takes into consideration a borrower's deposits. Such a system would enhance the bank's funds management, particularly account profitability analysis.

Case 5: Appeal of Violation of Truth in Lending

Background

A bank filed a formal appeal concerning a violation of 12 CFR 226.22(a)—Determination of Annual Percentage Rates (APRs). On consumer loans with loan origination fees (prepaid finance charges), the bank was incorrectly figuring APRs. The bank was not subtracting the finance charge from the principal loan amount to disclose an accurate amount financed, and the origination fees were not included as part of the finance charge. These errors resulted in the APRs being understated by more than the allowed tolerance level. The bank agreed that the APRs had been incorrectly calculated; however, the appeal raised questions about three aspects of the violation:

- Whether the errors constituted a true violation of law in light of footnote 45d of 12 CFR 226.22;
- Whether a true pattern or practice of violations existed; and,
- Why the OCC asked the bank to calculate reimbursements on loans made over the past two years, particularly in light of a recent court case, First National Bank of Council Bluffs, Iowa v. Office of the Comptroller of the Currency, No. 91-2289 (8th Cir. February 19, 1992).

Discussion

(1) Footnote 45d. Footnote 45d of 12 CFR 226.22(a) states that an error in disclosure of the annual percentage rate or finance charge shall not, in itself, be considered a violation of the regulation if the error resulted from a corresponding error in a calculation tool used in good faith by the creditor.

Footnote 45d is essentially intended to implement section 130(c) of the Truth in Lending Act, which absolves a creditor from civil liability for bona fide errors that are not intentional and that occur despite the maintenance of procedures to prevent the error. The Regulation Z Commentary at paragraph 22(a)(1)-5 states that in order for a calculation tool to be used in "good faith," the creditor "must in any case have taken reasonable steps to verify the accuracy of the tool, including any instructions, before using it. Generally, the footnote is available only for errors directly attributable to the calculation tool itself, including software programs; it is not intended to absolve a creditor of liability for its own errors, or for errors arising from improper use of the tool, from incorrect data entry, or from misapplication of the law."

(2) Pattern or Practice of Violations. The legislative history of the Truth in Lending Simplification and Reform Act of 1980, Pub. L. No. 96-221, 94 Stat. 168 *et seq.* (1980), indicates that the agencies must require reimbursement when the violation results from a pattern or practice of violations. Because most violations result from faulty procedures or misunderstanding of the act's provisions and are therefore repetitive in nature, the Senate Banking Committee expected that this criterion would encompass the majority of understatements committed by creditors.

(3) Calculating Reimbursements. Concerning the length of time over which the bank was requested to calculate reimbursements, the Truth in Lending Act (TILA) states that the required adjustment may be ordered only

> in connection with the violations arising from practices identified in the *current examination* and only in connection with transactions that are consummated after the date of *the immediately preceding examination* . . . .

OCC Examining Circular 262 contains the following explanation:

> TILA does not define either "current examination" or "immediately preceding examination." Although the OCC and the other federal banking agencies have consistently interpreted the phrase "immediately preceding examination" to mean the immediately preceding examination during which the agency reviewed compliance with TILA, the U.S. Court of Appeals for the Eighth Circuit recently concluded that the phrase "immediately preceding examination" means the last examination of any kind whether or not it included a review for TILA compliance. After discussions with the Justice Department and the other federal banking agencies, the OCC has decided not to seek further review of the Eighth Circuit decision. Unless the ruling is changed by the Supreme Court or Congress, banks in the states covered by the Eighth Circuit (Iowa, Minnesota, North Dakota, South Dakota, Nebraska, Missouri, and Arkansas) are not obliged to follow the OCC interpretation. We will continue to require banks in other areas to comply with the OCC interpretation.

Conclusion

The ombudsman found that because the violations were a result of an incorrect application of the loan origination fees, erroneous data were entered into the calculation tool, resulting in misstated APRs. Therefore, footnote 45d was not applicable in this situation.

The ombudsman found that although the violations were inadvertent, i.e., the bank did not intentionally violate the regulation, a pattern or practice did exist. All of the consumer loans with loan origination fees in the examiner's sample contained the APR error cited. The errors were not random, not infrequent, and had a common cause.

The ombudsman found that the supervisory office for this bank had acted reasonably in choosing a two-year time period for reimbursement. Because the bank was not located in the Eighth Circuit, the OCC was free to choose a time period based on the length of time since compliance with the Truth in Lending Act had been reviewed at the bank. The time period was also based on the fact that a majority of the loans involved had two-year maturity dates. The Truth in Lending Act prohibits agencies from ordering reimbursement on terminated loans older than two years (see section 108 (e)(3)(C)(iii)).

Case 6: Appeal of CAMEL Rating

Background

A bank formally appealed its composite CAMEL rating of "3." Bank management argued that the definition of a "2" rated bank more accurately described the institution. The bank's letter provided the following justification for a "2" rating:

- The bank had shown positive earnings since 1990. Operations earnings had grown and operational expenses had declined consistently over the previous 11 quarters. The bank did not agree with the examiner's characterization of reversal of a loan loss provision and recognition of securities gains as "Extraordinary Items."

- The bank's risk-based capital is more than 20 percent, more than double the "well-capitalized" criterion as defined by the regulations. The bank's equity capital-to-assets ratio exceeded 8 percent. In addition, the bank's owners had consistently demonstrated their willingness and ability to inject capital into the institution.

- The bank's allowance for loan and lease losses (ALLL) showed a surplus for over three years, and recoveries exceeded charge-offs in 14 of the previous 21 months. The bank achieved these favorable loan loss statistics in a period when the loan portfolio balance tripled.

- The bank's investment portfolio had performed at or above the yields achieved by the bank's peers, while the bank had continually reflected unrecognized gains for the previous 12 months.

- The bank's cost of funds was reduced to well under 3 percent, which is lower than 85 percent of the bank's peers, while interest income on loans has continued to grow.

Discussion

The Report of Examination noted that supervision by management and the board of directors had improved.

It also noted that capital levels were adequate, asset quality was good, and the bank had sufficient liquidity reserves.

The composite "3" rating was based primarily on the bank's poor earnings history. Operating trends had been improving, but during 1993 the bank remained operationally unprofitable. The bank's positive net income since 1990 was primarily the result of gains on security sales, negative loan loss provisions, and deferred tax-related earnings credit. The bank's net interest margin remained low, and overhead costs were high.

Conclusion

The ombudsman agreed that the bank's poor operating earnings and rapid growth during the previous three years could ultimately adversely affect the overall financial condition of the bank. However, he did not find that these factors by themselves justified a composite CAMEL rating of "3" at this time, in light of the other positive factors cited by the bank, including its favorable capital ratios. Accordingly, the composite CAMEL rating was upgraded to a "2."

Case 7: Appeal of CRA Rating

Background

A bank formally appealed its Community Reinvestment Act (CRA) rating of "Needs to Improve Record of Meeting Community Credit Needs." The bank had originally filed an appeal with its district office, which confirmed the rating given by the examiner-in-charge. Bank management then appealed to the Ombudsman' Office, saying the key issue had never been addressed by the OCC.

The bank believed the key issue was its inability to make loans to inner city, low-income borrowers without violating the formal agreement under which it was operating. The formal agreement contained articles on asset quality that covered the need for improved loan policy and underwriting standards, including loan-to-value ratios and debt service coverage ratios.

The bank had determined that inner city, low-income borrowers required mortgages with 100 percent loan-to-value ratios. The bank applied for, but did not qualify for, subsidized mortgage programs. The bank did not believe it could make nonsubsidized loans without violating the formal agreement and OCC's supervisory directives.

In addition, the bank contended it had not received adequate credit for the following activities:

- Committing to participate in a construction project of affordable housing and retail space.
- Committing to provide assistance to minority-owned small businesses.
- Having been approved to originate low-income mortgage products and granted a mortgage insurance policy (to date, however, the bank had made no such loans).
- Making several Small Business Administration loans (however, no counteroffers were made if the requested terms were not within the bank's policy, no follow-up was performed when applicants did not call back, etc.).

Discussion

The articles on asset quality in the formal agreement were not intended to prevent the bank from complying with CRA. Among other things, the bank could have dedicated a pool of funds to make loans with sound but more flexible criteria. The bank could have included this program and its underwriting criteria in the overall loan policy, made the loans, and still been in compliance with both its lending policy and the formal agreement. The bank could also have investigated affordable housing programs offered through the local government or worked with community groups to find ways to make loans to low-income borrowers. The other activities in which the bank was involved appeared to be productive, but at the time of the examination most only involved commitments by the bank and had not yet resulted in actual loans to low- and moderate-income borrowers.

Conclusion

The bank's belief that the formal agreement limited its ability to meet the identified needs of the low- and moderate-income individuals in its community was understandable. However, the ombudsman found that the bank should have continued to investigate feasible ways to meet these identified credit needs. Since the examination, the bank has developed plans to offer specialized credit products to satisfy the needs of the low- and moderate-income individuals in its delineated community. The bank believes that progress in meeting those needs will be measurable by March 31, 1994.

Accordingly, the bank's rating remains "Needs to Improve Record of Meeting Community Credit Needs." However, the OCC will perform a follow-up review of the bank's progress during the second quarter of 1994.

Speeches and Congressional Testimony

Statement of Eugene A. Ludwig, Comptroller of the Currency, before the Senate Committee on Banking, Housing, and Urban Affairs, on the power of national banks to sell insurance, Washington, DC, October 5, 1993

Mr. Chairman and members of the committee, I appreciate this opportunity to testify on the scope of activities open to national banks. I should note at the outset that my views are based solely on my perspective as the primary regulator of national banks and should not be taken as an official statement of administration policy.

Your letter of invitation requested my views on nationwide banking and branching, as well as on the insurance activities of national banks. Because I will be testifying before the Committee on interstate banking and branching on November 2, I will confine my remarks today to the subject of insurance powers.

Maintaining Safety and Soundness

The primary consideration in assessing any proposal for expanded powers for national banks is the need to maintain the safety and soundness of the national banking system. That is the central objective of bank regulation, and it will be my central objective as Comptroller of the Currency.

I am glad to be able to report that the financial soundness of most national banks has improved in recent months. Banks have added to their capital reserves, helped in part by several quarters of record earnings. Credit quality is improving in most areas of the country, and the ratio of loan loss reserves to nonperforming loans is rising. Many of the weakest banks have been closed or sold. The bank insurance fund is on a more sound financial footing, in part because the prompt corrective action provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 reinforced the incentives of banks to maintain capital cushions. Low inflation, low interest rates, and moderate economic growth provides a favorable economic environment for the banking industry.

I want to make sure that we build upon, rather than squander, these hard-earned gains. We are taking a number of initiatives to reinforce the banking industry's recovering health and to promote the continued safety of the national banking system. The OCC has increased its on-site presence in national banks and is performing annual, on-site examinations consistent with our statutory mandate. We have increased our examining force to facilitate this increased supervision. At the same time, we are focusing on emerging issues in the banking industry that appear to pose the greatest risk to safety and soundness. Our areas of current supervisory concern include the credit quality of commercial real estate and construction loans, increased emphasis on residential mortgage activities, and interest rate risk and derivative products. The OCC is also conducting a comprehensive review of our methods for supervising and examining national banks to ensure that our efforts are effective and efficient.

As we consider what else needs to be done to ensure the safety and soundness of the banking system, we need to look beyond the current favorable economic climate and recognize that the banking industry remains in a long-term secular decline relative to other sectors of the market for financial services. The banking industry's share of the nation's financial assets has been shrinking for decades, and that decline accelerated sharply in the 1980s. Large amounts of deposits have flowed out of banks and into mutual funds. Lending to large corporations, formerly a mainstay of the banking business, has dropped sharply, as corporations with strong credit ratings have turned to the commercial paper market as a less expensive source of short-term debt financing. U.S. banks have also lost business to finance companies, insurance companies, and foreign lenders.

Although other kinds of providers now provide an alternative source of many financial services formerly provided almost exclusively by commercial banks, banks still play a unique and important role in our economy. For the communities in which they are located, banks can serve as poles of economic development. They provide combinations of financial intermediation and payments services that are not available from any other financial service provider. They are the principal source of financing for small businesses, which are an important source of new jobs. If banks are to continue to play these essential roles and to remain financially strong, they must be given a fair opportunity to compete with other providers of financial services. Artificial distinctions between "banking" and "nonbanking" products should not prevent banks from serving their markets.

Insurance Powers

The OCC has long taken the view that national banks derive the power to sell insurance from two sources: the general statutory power to engage in the business of banking and activities incidental to banking, and 12

U.S.C. 92, which permits national banks located in places with populations of less than 5,000 to sell insurance generally as agent. The courts have recently accepted the OCC's position that a bank does not need to have a main office, but only a branch, in a place of less than 5,000 in order to sell insurance under section 92 and that such sales may be made to customers anywhere.

The OCC has approved the sale of a variety of insurance products, such as municipal bond insurance and credit life insurance, under the incidental powers clause. Some circuit courts have upheld the OCC's actions and views, whereas two other circuit courts have ruled that no insurance activity falling outside the scope of section 92 is permissible for national banks. I believe this latter view is incorrect as a matter of law.

The sale of insurance poses very little risk to national banks, certainly less than that involved in lending. Insurance sales, like other agency and brokerage activities, do not involve any extension of credit, because the underwriter of the insurance policy, rather than the bank, bears the underlying risk of loss.

Views on S. 543

In your letter of invitation, you asked for my views on the interstate branching and insurance powers provisions of S. 543, which the Senate passed on November 21, 1991. As I stated earlier, I will confine my comments today to the insurance provisions of S. 543, because I will be appearing again before the committee on November 2 to discuss interstate branching.

I am concerned that the approach to national bank insurance powers in S. 543 may unduly limit the OCC's authority to respond to an evolving market for financial services. S. 543 would have imposed a permanent moratorium on the OCC's authority under national banking law to permit national banks to engage in insurance activities that are incidental to the business of banking. Since financial markets and the business of banking are constantly evolving, other such products are sure to emerge in the future.

In addition, S. 543 would have authorized national banks and their subsidiaries to sell insurance in any state, but only to the extent that state law permitted banks chartered by that state to sell insurance. Throughout the history of banking in the United States, competition between national and state-chartered banks has promoted innovation in financial services, increased consumer choice, and helped keep prices low. I am concerned that limiting the insurance powers of national banks to those authorized for state banks would reduce the scope of competition and the benefits that it provides.

Finally, S. 543 would have substantially restricted the authority of national banks to sell insurance in places with populations of 5,000 or less. Sales would have been permitted only to persons residing, working, or owning property in the place. Such restrictions could make it impractical for some banks, such as those located in sparsely populated areas, to offer insurance under this provision.

Conclusions

No banking service is completely devoid of risk. But providing insurance services as agent or broker is about as safe an activity as can be imagined. Permitting national banks to sell a broader array of insurance products and services would not pose any material risk to the safety and soundness of individual banks, or any systemic risk to the banking system as a whole.

Statement of Eugene A. Ludwig, Comptroller of the Currency, before the Subcommittee on Consumer Credit and Insurance of the House Committee on Banking, Finance, and Urban Affairs, on Community Reinvestment Act reform initiatives and fair lending, Washington, DC, October 21, 1993

Mr. Chairman and members of the subcommittee, I welcome the opportunity to appear before you today to discuss President Clinton's Community Reinvestment Act (CRA) reform initiatives and fair lending. The administration is committed to ensuring that the benefits of a safe and sound banking system extend to all segments of society. Meaningful CRA reform and vigorous enforcement of banks' compliance with fair lending statutes are critical to meeting that commitment.

As I have noted on numerous occasions since I became Comptroller of the Currency, ridding the banking system of discrimination is one of my highest priorities. Banks play a unique role in the development and prosperity of a community. In addition to providing credit and other vital financial services, banks serve as poles of economic development. I firmly believe that greater access to banking services is one of the keys to rehabilitating economically disadvantaged communities.

There are no two people I would rather have as allies in this effort than Henry Cisneros and Janet Reno. Through their words and actions, they have left no doubt of their resolve. I look forward to continued close and productive cooperation among the Office of the Comptroller of the Currency and the Departments of Housing and Urban Development and Justice. To succeed, we must fight discrimination as a team. We all have the same goal.

In my statement today, I will first describe where we currently stand in our effort to meet President Clinton's challenge to the federal banking regulators to make fundamental changes in the way we administer the CRA. I will then describe other efforts that we are undertaking at the OCC to ensure that national banks provide credit on a nondiscriminatory basis.

CRA Reform

Understanding the President's Challenge

President Clinton has challenged the OCC and the other federal banking regulators to make fundamental changes in the way we administer the CRA. He has asked the agencies to develop clearer and more objective standards for CRA performance, to eliminate unnecessary documentation requirements, and to improve consistency in CRA examinations and enforcement.

Meeting the challenge set by the president will not be easy. The CRA has been a focus of controversy throughout the 15 years of its existence. From the beginning, bankers have complained about the high cost of complying with CRA regulations, while community groups have complained that CRA ratings do not reflect actual performance in helping to meet the community's needs. Finding practical solutions that address these concerns has proven to be difficult in the past.

Despite those difficulties, I am confident that we will be able to make improvements in how we administer the CRA. But I must underscore that our efforts will not produce a panacea. Reform of CRA regulations and examination procedures cannot solve all the problems of distressed rural and urban communities, nor answer all the complaints of bankers about regulatory burden. Nevertheless, we are committed to using this opportunity to improve the administration of the CRA.

For many years, national banks have been expected to serve the convenience and needs of their communities. In many respects, the Community Reinvestment Act, enacted in 1977, is an extension and clarification of this long-standing expectation. The act — and the regulations issued under the act — require federal regulators to assess the record of each bank and thrift in helping to meet the credit needs of all portions of its community, including low- and moderate-income neighborhoods, and to take that record into account when considering corporate applications for charters or for approval of mergers, acquisitions, branch openings, or office relocations.

The CRA provides a framework in which depository institutions and community groups can work together to ensure that credit and other banking services are available to underserved communities. Under the impetus of the CRA, many banks and thrifts have opened new branches, provided expanded services, and made substantial commitments to state and local governments or community groups to increase lending to all segments of society.

However, the current CRA process often lacks credibility with the banking industry and the communities

that the act is intended to benefit. Although the vast majority of banks receive satisfactory CRA ratings, community groups complain that many communities remain underserved because the CRA evaluation process does not focus enough on actual lending, investments, and services provided. At the same time, bankers complain that the current implementation of the CRA results in excessive burden relative to the benefits that the system produces. I have looked at individual bank CRA evaluations and find that both bankers and community groups have some foundation for their complaints.

One of the principal goals of the president's reform initiative is to achieve a CRA rating system that commands respect from all parties. President Clinton established several broad principles that will guide the agencies' reform efforts. He called for CRA assessment standards that are based more on measurable performance; less burdensome CRA examinations that are more consistent and even-handed; better public access to information on CRA evaluations; and tougher actions against institutions with persistently poor CRA performance.

Public Participation

In your invitation letter, Mr. Chairman, you asked what the OCC has done to prepare to implement the president's initiative. We have prepared by gathering information on local credit needs from the residents of distressed communities and from the bankers who serve them. I have personally devoted much of my time over the past few months to investigating these problems firsthand, in public hearings and in visits to inner-city neighborhoods.

I consider these outreach efforts to be the key to improving CRA administration. One of the hallmarks of our democratic society is public participation in determining the government policies that affect our lives. Many citizens believe that the CRA and fair lending statutes have not provided to them the kind of access to credit and other banking services that many in our society take for granted. We cannot hope to solve these problems until we understand how they affect individuals in the community.

To that end, the OCC, in conjunction with the other federal bank regulatory agencies, held a series of public hearings across the country. We sought participation of consumer and other community groups, banks, and other public and private groups representing people in all circumstances.

At the hearings, we asked for the views of witnesses on the following questions:

- How can CRA regulations be improved to provide increased clarity, objectivity, and performance?

- Which of the present CRA assessment factors, if any, have forced banks to maintain unnecessary and unproductive documentation? How should the regulators revise these factors?

- What objective factors can the regulators incorporate into the new CRA standards to focus community reinvestment activities on lending to low- and moderate-income individuals and neighborhoods, small businesses, and small farms; investments in low- and moderate-income neighborhoods; and provision of banking services to residents of low- and moderate-income neighborhoods?

- In developing new CRA performance standards, should differences among banks and thrifts (e.g., location, corporate structure, product lines) be taken into account? If so, how should these situations be incorporated into new standards?

General Summary of Witnesses' Statements from CRA Hearings

OCC staff members are presently reviewing testimony and submissions from more than 250 witnesses who testified at the public hearings. The preliminary results of our review indicate that:

- There was a widely felt need to base CRA evaluations more on performance, but most witnesses rejected a formulaic approach that relied on quotas or credit allocation.

- Many witnesses recognized that other financial intermediaries, such as insurance companies and mortgage companies, reap financial benefit from operations in various communities but do not bear any of the responsibility for community reinvestment. The witnesses recommended that CRA apply to these nonbank financial institutions.

- A number of witnesses representing both bankers and community organizations stressed the need to differentiate between small and large banks. A few witnesses articulated a similar need to differentiate between urban and rural banks, giving as an example the burden of geocoding for small

banks that serve a single zip code or census tract.

- Many witnesses pointed out the benefits of requiring HMDA-like data disclosures for small business loans.

- Many witnesses urged regulators *not* to adopt a "safe harbor" provision.

- A number of witnesses mentioned the desirability of giving CRA credit for lending outside the current, narrowly defined community.

- Many witnesses stressed the need for more targeted examiner training, with a large number testifying on the need for such training for lenders and community-based organizations as well. Many of these witnesses suggested that lenders need to establish contact and relationships with the communities they serve. They also suggested that examiners needed to make independent findings regarding community credit needs.

- Many witnesses articulated the need for more diversity in the staffs and boards of financial institutions.

- Some witnesses mentioned the use of strategic plans, to be jointly developed by the lenders and the community. Some witnesses noted that strategic plans could be tied to target areas such as enterprise, community development, empowerment, or redevelopment zones.

Proceeding with CRA Reform

The federal bank regulatory agencies are now in the process of evaluating the testimony that was presented at the public hearings and translating those ideas into specific reforms.

In your invitation letter, Mr. Chairman, you asked whether the president's CRA initiative will be implemented by uniform interagency regulations. I fully expect that it will be. The types of problems that bankers and community groups have identified with CRA administration are the same for each of the regulatory agencies. We conducted the public hearings jointly, and we expect to develop a single interagency policy.

I cannot tell the subcommittee which of the recommendations that we heard in the public hearings we will adopt. That will be decided in the course of the interagency rulemaking process, which is just beginning. The general goals, however, are clear: to base CRA ratings to a greater extent on the degree to which institutions actually provide credit and other banking services to the communities in which they do business, and to reduce compliance costs.

Performance-Based CRA Standards

I believe that the most important step that regulators can take to improve CRA implementation is to base CRA evaluations less on process and more on an institution's actual record in helping to meet the credit needs of its community. CRA evaluations should place less emphasis on the number of meetings that a bank has held with community and civic organizations and the number of advertisements it has run in local newspapers and aired on local radio and television, and more emphasis on the number of loans and other investments that the bank has made to low- and moderate-income households or individuals, community-development organizations, small and minority businesses, and small farms. Everyone should benefit from this change in emphasis. Low- and moderate-income communities should gain from increased community lending and investment, and improved access to banking facilities and services. Banks and thrifts should benefit from clearer, more objective CRA standards that reduce regulatory uncertainty and compliance costs, and from the profits that these activities will generate.

We must recognize that the regulators' evaluations of CRA performance cannot be based entirely on fixed numerical performance standards. The CRA performance standards must allow examiners to recognize the particular circumstances of each community and each financial institution. But between a rigid system of numerical targets and the system we have today, there is considerable room for improvement. Accordingly, the OCC is working with the other federal banking agencies, bankers, and community and other groups to develop CRA guidelines that use both quantifiable and judgmental factors to evaluate an institution's performance in helping to meet the needs of its community.

President Clinton mentioned three broad categories of performance that revised CRA guidelines might include: *lending* to low- and moderate-income individuals and neighborhoods, small businesses, and small farms; *investing* in the local community, with a particular focus on low- and moderate-income neighborhoods; and *providing banking services* to residents of low- and moderate-income neighborhoods. I will discuss each of those categories briefly. I wish to make clear, however, that my remarks are preliminary. I can speak only about goals and not about specific solutions.

Lending. In the CRA, Congress found that banks and thrifts have a continuing and affirmative obligation to help meet the credit needs of their local communities. Banks and thrifts should meet this obligation through community-based lending, such as residential mortgage loans, home improvement loans, consumer loans, loans to small and minority businesses and farms, as well as loans to nontraditional organizations that enhance the quality of life in the community, such as nonprofit neighborhood development corporations and other nonprofit entities that provide needed services.

Investment. Investing in community-development corporations and projects, or purchasing bonds issued by local governments, can be another way of helping to meet the community's needs. However, making such investments will not in most cases relieve a bank of its other CRA responsibilities.

Banking services. The third area that the president highlighted is the need to expand the availability of bank services. An institution must be accessible to low- and moderate-income people in order to help meet the credit needs of its entire community. At our public hearings, community groups stressed the importance of full-service branches in low- and moderate-income urban neighborhoods, poor rural areas, Indian reservations, and other areas that traditionally have been underserved.

As we develop new CRA standards, we must recognize the diversity of the communities that banks serve as well as the institutional diversity that characterizes the banking and thrift industries. Such diversity argues against government specifying in great detail all the methods banks and thrifts should use to identify the communities that they serve or the ways institutions choose to serve those communities.

How any particular institution meets its CRA obligations will depend on a variety of factors including its overall business strategy, size, financial resources, corporate structure, location, and the needs of the community in which it operates. For example, at the public hearings, representatives of community banks around the country emphasized, and the OCC agrees, that smaller community banks do not have the resources to undertake large, sophisticated efforts comparable to those utilized by a few large banks to demonstrate satisfactory CRA performance. Nonetheless, each community bank has the same obligation as larger institutions to identify and serve its entire community, including low- and moderate-income urban areas and distressed rural areas.

In your letter of invitation, Mr. Chairman, you also requested my views on whether statutory language and the history of CRA permit the regulatory reforms proposed by President Clinton. The answer is clearly yes. The president's initiative is intended to improve efficiency and effectiveness by refocussing the processes involved in CRA compliance and enforcement. The OCC believes that the reforms to CRA compliance and enforcement being considered by the OCC and the other regulatory agencies are intended to better implement existing law. Under the CRA, the regulatory agencies are required to consider banks' CRA performance when considering corporate applications. However, as it stands, the act does not prescribe specific actions that banks must take to comply with CRA or the means employed by the regulatory agencies in CRA enforcement. The specific reforms we will propose should represent a more efficient, less burdensome approach to CRA examination and enforcement.

Other Reform Initiatives by the OCC

In addition to participating in the interagency effort to revise the CRA, the OCC is initiating several other efforts. We are reviewing our compliance examination procedures, which include fair lending evaluations, and we are improving examiner training. We will initiate a testing program to help detect discrimination in mortgage lending, and we are engaged in several joint efforts with the Department of Housing and Urban Development (HUD), the Department of Justice (DOJ), and the other banking agencies to combat discrimination in lending.

New OCC Fair Lending Examination Procedures

The OCC's compliance examination has a central role in evaluating the success of individual banks in meeting the objectives of fair lending statutes. For the OCC, developing, testing, and revising examination procedures is a continuing process, both for safety and soundness examinations, which were first performed during the Civil War, and for fair lending compliance examinations, a more recent activity.

The OCC will do all it can, on its own and in conjunction with other federal regulatory and enforcement agencies, to ensure that all individuals have a fair and equal opportunity to gain access to credit and other financial services offered by national banks. We will use the full range of our supervisory tools, including enforcement actions when necessary, to ensure the highest possible levels of compliance with fair lending laws. When appropriate, we will also make referrals to and work with other enforcement agencies. Credit and other banking

decisions simply cannot be made on the basis of a person's skin color, ethnicity, religion, gender, age, marital or familial status, or disability.

Findings of apparent discrimination by the OCC and the other federal financial institution regulatory agencies have, in the past, been rare. Formerly, we examined loan files one-by-one, looking for violations of law. Those procedures were predicated on the premise that discrimination consisted of well-qualified minority applicants being denied loans.

In such circumstances, careful review of a denied applicant's loan file might reveal certain technical and procedural violations of the fair lending laws, such as improper requirements for spousal signatures and inadequate notification of the reasons for denying a mortgage loan application. But because we did not systematically compare loan files with one another, that process was not likely to detect differences in the amount of accommodation and assistance that a lender provided to applicants. In many cases, such assistance — requesting explanations of derogatory credit information, suggesting ways to improve an applicant's reported income or reduce the applicant's outstanding debt, or offering an applicant loan options that might improve his/her ability to meet underwriting standards — can mean the difference between denial and acceptance.

It is our belief that discrimination, where it occurs, often affects applicants with some blemishes — relatively little time in a current job, past instances of late payment on certain obligations, high ratios of debt to income or housing expense to income — as part of their application files. In such circumstances, there is normally a basis for denial in the individual loan file.

The critical question is whether the noted reasons for denial truly are disqualifying, or whether they reflect discrimination. The answer to that question often requires a comparative review of denied target-group applications with approved applications from a control group to determine whether the lender used the same underwriting standards and offered the same degree of accommodation, assistance, and flexibility to all applicants, regardless of race, ethnicity, religion, gender, age, marital or familial status, or disability.

To improve the OCC's ability to detect apparent discrimination, we have revised our procedures for conducting fair lending compliance examinations. In 1992, the OCC developed new procedures for examining residential mortgage lending by national banks, and conducted a field test of the new guidelines. In March 1993, the OCC issued new interim guidelines governing the examination of residential mortgage lending by national banks. We have implemented these interim guidelines, and examiners in all sections of the country are currently using them. We believe that the experience of both bankers and examiners with these guidelines will enable the OCC to refine and improve them.

The new fair lending compliance examination procedures include a thorough review of mortgage applications by minorities for evidence of disparate treatment. Under these procedures, OCC examiners compare banks' actions on a randomly selected sample of applications by members of a minority group with the banks' actions on a randomly selected sample of the majority population. The OCC has also undertaken a major study utilizing HMDA reports to analyze whether there are patterns of unfair residential mortgage lending that are not evident from a review of a sample of applications. We have also stepped up our efforts to ensure that the banks' HMDA reports accurately reflect banks' actual lending behavior.

Under our new fair lending examination procedures, an examiner will reach a preliminary conclusion whether there is a reason to believe a lender has illegally discriminated in lending. That preliminary conclusion could be based on the institution's own policies or pronouncements, documents from loan files, or statistically valid analyses of the institution's lending. To ensure consistent application of the "reason-to-believe" standard, an examiner's preliminary conclusions may be reviewed by, among others, one of the OCC's fair lending specialists. If that internal OCC review affirms the examiner's judgment that there is a reason to believe illegal discrimination occurred — because of overtly discriminatory policies producing a disproportionately adverse effect, or disparate treatment of an applicant — we will notify HUD or DOJ, as appropriate.

Our initiatives focus on residential lending because those are the only loans for which banks are permitted to collect information about the race, national origin, and gender of the applicant. However, I am also concerned about the possibility of discrimination because of race, ethnicity or gender in business, particularly small business and general consumer loans. I have directed my staff to explore whether collecting that information should be authorized.

Testing

Our revised fair lending examination procedures, even when implemented by highly skilled, well-trained examiners, will not enable the OCC to discover how someone seeking credit was treated prior to submitting an application. To address that problem, the OCC has

decided to use minority and nonminority testers. Our objective is to determine whether banks are discouraging applications from members of minority groups or women before they reach the stage of filing an application. We expect to initiate testing early in 1994. If, as a result of our testing efforts, we reach a reason to believe that an institution is discriminating illegally in lending, we will make a referral to DOJ or HUD, as appropriate.

Joint Efforts with HUD

The banking agencies and the Department of Housing and Urban Development have implemented a memorandum of understanding to govern the processing of consumer complaints alleging violations of the Fair Housing Act. The memorandum covers complaints alleging discrimination in residential lending on the basis of race, color, national origin, religion, sex, familial status, and handicap.

The OCC and HUD have formed an interagency working group to strengthen our efforts to counter discrimination in mortgage lending. Through that working group, HUD has shared with the OCC its testing methods learned from its experience with private fair housing groups and local fair housing agencies. We are also working with HUD (and the other banking agencies) to develop a policy statement on lending discrimination. That statement will be used to guide banks, courts, attorneys, fair housing groups, and others on what constitutes discrimination in mortgage lending. The policy statement could also be used to assist the efforts of fair housing groups, and will serve as a foundation for rulemaking on discrimination issues.

Joint Efforts with DOJ

The OCC and other federal banking agencies share responsibility for fair lending enforcement with the Department of Justice. The Equal Credit Opportunity Act specifically provides that the federal banking agencies shall enforce compliance. The OCC's enforcement authority includes the authority to seek cease and desist orders and to assess civil money penalties where appropriate. This authority is in addition to the Justice Department's authority to file civil actions.

The OCC has cooperated with the Justice Department to ensure compliance with fair lending laws. The Equal Credit Opportunity Act requires mandatory referrals to the Justice Department whenever a federal banking agency finds a pattern or practice of discrimination. The OCC has referred several discrimination cases to the Department of Justice under its new fair lending policy, including one case of racial discrimination. The OCC is cooperating fully with the Justice Department on all referrals. The OCC has also shared information with the Justice Department in other cases of suspected discrimination, to the extent permitted by the Right to Privacy Act.

Specialized Compliance Examination Force

The OCC recognizes that special skills and procedures are required in its examination for compliance with statutes and regulations pertaining to equal, nondiscriminatory access to financial services. Accordingly, for many years, the OCC has provided its examination personnel with specific training for compliance examination.

At the public hearings I mentioned earlier in my statement, community groups and bankers alike emphasized the need for better trained examiners. They also confirmed that the OCC should have a specialized corps of examiners devoted to compliance programs such as CRA. Bankers complained that they were not given CRA consideration for qualifying activities, because these activities were not "on the list" of activities familiar to a particular examiner. Community groups cited bankers' fears of not receiving CRA consideration for financing nontraditional community projects, or for providing other services to the community that might not produce the same immediate results as making loans.

The OCC has now adopted an expanded training and career development program for examiners wishing to specialize in compliance work. Examiners choosing to specialize in compliance examination will receive more extensive training in the techniques and skills used in compliance examinations. These examiners will have similar opportunities for advancement in their specialization as those following the traditional commercial examination career path. Under the OCC's compliance examination program, some compliance examination specialists would be limited to that career path, but most would be able to move between compliance and safety and soundness (commercial) examinations.

Conclusions

President Clinton has challenged the OCC and the other federal bank regulatory agencies to make CRA regulation more meaningful to all segments of the community and less burdensome to banks and thrifts. This reform initiative is part of a broader effort to ensure that the benefits of a safe and sound banking system extend to all segments of society.

At the OCC, we are revising the methods we use to conduct fair lending examinations, so that we can more effectively detect and take action against lending dis-

crimination. We are establishing an expanded training and career program for examiners specializing in compliance programs, and we are making it clear that this specialization will be viewed within the OCC as equal in importance to specialization in safety and soundness examinations.

Banks provide services that are essential to the economic life of the community and to the welfare of individual homeowners, proprietors, and entrepreneurs. One of my highest priorities during my six months in office has been ensuring that these services are made available to all segments of our society on a fair and equal basis, and it will remain a top priority during the remainder of my tenure as Comptroller of the Currency.

Remarks by Eugene A. Ludwig, Comptroller of the Currency, before Women in Housing and Finance, on the direction of the banking industry and Community Reinvestment Act reform initiatives, Washington, DC, October 21, 1993

As I have noted on a number of occasions lately, the banking industry is in the midst of a cyclical upturn within a secular decline.

This recovery has been unusually powerful with record profitability. Contrary to opinion in some quarters, I do not believe this recovery merely reflects today's benign interest rate environment, for a number of reasons: One, credit quality continues to improve, and declining loan loss provisions are likely to support further gains in economic performance. Two, reserves and capital are stronger than at any point in recent decades. Three, consolidation withdraws weaker players from the market. This consolidation — in combination with the psychological scars produced by recent credit losses — is, I think you will agree, likely to produce somewhat more rational pricing in the 1990s than we saw during much of the 1980s. Four, regulatory policy has improved, and continues to improve, balance sheet integrity. Finally, the current macroeconomic environment is favorable for banking. We find ourselves in a moderate growth, low inflation, and low interest rate environment — virtually an optimal environment for most financial institutions.

The banking industry's secular decline relative to other financial services sectors is also certainly no news for most of you. But it is a very real and worrisome fact. Banks' share of the nation's financial assets has been declining for decades. This decline accelerated sharply in the 1980s. In 1980, commercial banks held 37 percent of all financial assets. Savings and loans, savings banks, and credit unions held an additional 21 percent, bringing the total for all deposit intermediaries to 58 percent. By 1990, the commercial bank share had dropped to 32 percent, and the total for all deposit intermediaries had dropped to 48 percent. Now, what can or should we do about this decline?

To a great extent, the fate of banking lies outside the influence of the regulator. But excessive and inconsistent regulation must take at least some part of the blame for banking's long-term decline.

To the degree that it does, one response to the problem of excessive and inconsistent regulation is thoughtless, knee-jerk deregulation. But that is like saying that because some laws are obsolete, as some always are, all laws should be repealed. We have had some experience with this kind of approach to deregulation recently — with consequences apparent to us all.

Another, more general response heard recently to the decline of banking is to say: Who cares? Why do we really need banks? Commercial and consumer finance companies, capital market groups, and other such financial entities can take up the slack. If the banks cannot hack it, we should let them go.

That is not a sensible option — for three principal reasons. First, we have thousands of banks, they hold trillions of dollars in assets, and our unwinding the industry — or letting it unwind on its own — would lead to severe economic dislocations. Second, the banking industry, even in its current "lite" form, continues to be an extremely important player in credit availability. Since the beginning of the republic, the role of banking in economic development has informed government banking policy in general — and regulation in particular. The forms of economic development have changed over time, but the end has remained the same. Third, banks offer a safety net, particularly to the less sophisticated and less affluent, that is generally not available from other financial service providers. Banks benefit these consumers. The withdrawal of this safety net would have serious social consequences.

Neither response — engaging in knee-jerk deregulation or allowing banks to wither away — is appropriate to the need. The right answer is that we need to do our regulatory and supervisory jobs much, much better. Indeed, to coin a phrase, I would go so far as to say we need to reinvent banking regulation: take every regulation we have and subject it to rigorous objective examination to make sure we are achieving as much safety and soundness as we are able, while eliminating what is meaningless. Where a regulation continues to be justified, we should, if we can, revise it to make it as effective as possible. Where a regulation cannot continue to be justified, we should eliminate it. Eliminating unjustified regulations — the obsolete, the archaic, the counterproductive — is the easy part of the exercise.

Far more difficult, but just as necessary, is redesigning the remaining regulations so that they can be more effective and, where possible, they can add to safety and soundness. In this regard, I want to emphasize our serious intent to improve performance in this area. We will not, however, simply pile on. Duplication and excess are not neutral to safety and soundness, they are often strongly counterproductive.

Redesigning regulation should be — for the regulator, though not necessarily the regulated — a painstaking, laborious, and time-consuming exercise, a deliberative process. We must strive for reason, balance, judgment, objectivity, and seriousness of purpose.

One such exercise we are engaged in at the moment is redesigning the Community Reinvestment Act regulations. There is no doubt that banks have responsibilities to meet the convenience and needs of their communities and, in particular, to help meet the credit needs of low- and moderate-income households and businesses. They have these responsibilities for the same reason that you and I have the responsibility to pay our taxes and to obtain a valid driver's license before operating a car: it is a matter of law.

Although there is no question that banks have these responsibilities, there remains the question of how to meet them. In answering that question, the place to begin is with what the law actually says. There are people who think, and who say, that the Community Reinvestment Act mandates lending quotas or that it otherwise requires credit allocation. All I can say is, these people have good imaginations. The law says no such thing. Other people have said that the CRA statute is so vague it should be administered in a totally subjective fashion. And, to a great degree, current regulation has relied on a subjective approach. But the unintentional result of this subjective approach has been a gigantic paperwork burden with little incentive for actual CRA lending. Given this outcome, it is not surprising that banks and community groups called for reforms.

In our effort to reform the CRA, therefore, one of our goals is to make the CRA evaluation process credible. The only way to make it credible is to base it on fact. Fact as quantitative data and fact in the form of facing up to the real concerns on both sides. We had to know what the real concerns were before we could address them.

We tackled that need head on. The federal bank regulators have now sponsored seven hearings around the country on CRA reform: In Washington, DC; New York; Los Angeles; San Antonio; Albuquerque; Chicago; and Henderson, North Carolina. We heard more than 250 witnesses, who submitted thousands of pages of testimony. And to see with my own eyes and hear with my own ears the concerns of members of minority and distressed communities, I walked through South Central Los Angeles and an urban neighborhood in New York City.

We are completing our analysis of the record of fact that we developed through our hearing process — weighing that record reasonably, logically, and rigorously.

Because we are in the deliberative process, I cannot say too much about the final outcome. But I can, I believe, shed some light on a few of the issues the reform process has raised. One, and this will not surprise you, not everyone will be happy with the results. Those who want the CRA to go away will be unhappy. On the other side, those who see CRA as the solution to all the social ills that beset America will be disappointed.

Two, the current process of evaluation — the 12 assessment factors — will be substantially revised. We will focus instead on *results* in the three areas President Clinton selected for emphasis: lending in low- and moderate-income neighborhoods, services in these neighborhoods, and investments.

Three, banks and communities are diverse and we must respect that diversity. Because we are sensitive to the fact that smaller institutions have fewer resources, particularly in collecting and analyzing data. In short, we will avoid taking a one-size-fits-all approach to measuring CRA compliance.

Four, although we want a more objective approach to CRA, one that will focus on facts and measurable data, we do not want to eliminate the judgment of examiners in CRA assessments. There is a place for such judgments. Because facts are necessary to any reasoned decision making, however, no one should be surprised that our reformed CRA compliance process will emphasize facts.

Five, we will expect institutions that do business in a wide geographic area to meet community needs across the range of their operations. We are looking at market-by-market CRA assessments, which would be made public and would be combined to form an overall rating. This approach would treat institutions more equally regardless of whether the banking company is organized as separate banks or as subsidiaries. In some states, such as Florida, there are banking companies with one form of organization or the other that have wide geographic operations. Those organized as a group of separate banks at present receive a CRA rating for each bank, while those organized as a group of subsidiaries receive just one overall rating. We should not favor one form or another in our CRA evaluation process.

Finally, let me say, no one is more committed to ending discrimination in bank lending than I am. No one is more committed to making sure that banks meet their responsibilities to their communities than I am. CRA reform is an opportunity to discover how much — not how little — support banks can lend to inner cities and rural communities. CRA reform is an opportunity to discover

how great — not how small — a commitment banks have to the people who live where the bank does business. CRA is an opportunity for bankers to show how much — not how little — leadership they can exert in the world of financial services.

But, at the same time, no one is more committed to a deliberative regulatory process than I am. If we address concerns over CRA in an objective and deliberative manner, people will have confidence in the outcome, whatever that outcome may be. CRA reform is only one of the first steps we are taking in an objective and deliberative review of all bank regulation. Our ultimate objective is a regulatory system that deserves confidence from bankers and bank customers alike.

Statement of Eugene A. Ludwig, Comptroller of the Currency, before the Subcommittee on Financial Institutions Supervision, Regulation, and Deposit Insurance of the House Committee on Banking, Finance, and Urban Affairs, on interstate branching, Washington, DC, October 26, 1993

Mr. Chairman and members of the committee, I appreciate this opportunity to testify on interstate branching. Markets for financial services have no natural geographic boundaries. Yet, banking firms are, for the most part, required to do business through separately chartered subsidiary banks in each state in which they operate. This inconveniences customers who bank in more than one state and drives up the cost of banking services.

Permitting banks to operate interstate branching networks should help improve the safety and soundness of the banking system and it should help banking companies provide more convenient and cost-effective service to their customers.

Interstate Banking Today

The authority of banking firms to provide services across state borders is currently limited by two provisions of federal law:

- The Douglas Amendment to the Bank Holding Company Act permits banking firms to acquire out-of-state banks only if the acquisition is explicitly authorized by the state in which the target bank is located. Every state has enacted legislation permitting some degree of interstate banking. But interstate banking under the Douglas Amendment must be conducted through separately incorporated subsidiaries of a bank holding company.

- Direct interstate branching is more severely restricted. The McFadden Act virtually prohibits interstate branching by national banks and by state banks that are members of the Federal Reserve System. Most states have enacted similar restrictions that apply to state-chartered banks that are not Federal Reserve members.

The constraints on interstate banking that these statutes provide are in many ways more nominal than real. Between 1980 and 1992, the number of banking companies with multistate operations increased more than tenfold, from 16 to 177. The number of banks they operated jumped from 279 to 1,277, and the volume of banking assets in those multistate companies rose from $85 billion to over $2.2 trillion, nearly 64 percent of all U.S. commercial banking assets.

Every state in the nation has acted to permit entry by out-of-state banking companies, in one form or another.[1] Although many states restrict the circumstances under which entry may take place, those circumstances are not, generally, geographical in nature. In fact, whatever limitations they may impose, 35 states permit entry by banking companies from any other state either on a reciprocal or unrestricted basis. The remaining 15 states and the District of Columbia permit entry, all but Hawaii on a reciprocal basis, by banking companies headquartered in nearby states.

The willingness of states to open their borders to out-of-state banking and the consequent growth in multistate banking companies has taken place against a background of important activity at the federal level. To facilitate the resolution of failed banks, Congress, beginning with the Garn-St Germain Depository Institutions Act of 1982, permitted holding companies to acquire closed banks with assets in excess of $500 million on an interstate basis, notwithstanding state law. Congress expanded this authority in the Competitive Equality Banking Act of 1987 to include, among other things, the emergency acquisition by out-of-state banking companies of banks that are in danger of closing and that have assets in excess of $500 million. Congress also has authorized the Resolution Trust Corporation to override state laws, including branching laws, to facilitate the acquisition of failed thrifts by banks.

In addition, federal thrifts may engage in unrestricted interstate branching, subject to certain exceptions, in accordance with rules of the Office of Thrift Supervision finalized in May of 1992.

Whatever stimulus for change federal activity may have provided, market pressures were clearly at work. For many years, national banks have been establishing

[1] *Restrictions some states impose upon entrants include barring* de novo *entry, limiting acquisitions to failed banks, requiring that acquired banks be older than some specified number of years, and requiring that a specified percentage of the assets of the acquiring company be located in a specific region. Hawaii, for example, limits out-of-state entry to banks headquartered in selected U.S. territories and to acquisitions of failed or failing banks by banking companies located in the twelfth Federal Reserve District, but only after all Hawaii banks have turned down the opportunity to buy the failing bank*

loan production offices where they could not establish branches, in order to serve customers operating in more than one state. National banks also may permit customers to have access to withdrawal services, and in some cases deposit services, without geographic limitation by joining interstate ATM networks.

More recently, various forms of home banking, electronic banking, point-of-sale terminals, banking by mail, and use of third party messenger services have also enabled banks to expand the geographic range of their services consistent with current law. Some banks in many states now provide deposit account services through tellers, similar to those that can be provided by an ATM machine, to customers of intrastate affiliated banks. Some banks are also considering providing such accommodation services on an interstate basis.

Such erosion of artificial barriers to interstate banking is a natural outgrowth of improvements in information technology. As bank products have become more standardized and information processing technology has become more powerful and affordable, it has become easier for banks to provide services over increasingly large geographic areas. Bank customers have also become more mobile. Rather than conducting all of their banking business at a single branch, they now demand access to banking services wherever they are, often in places other than their home state.

While interstate banking has grown steadily and broadly over the last decade, interstate branching — the opportunity to have branches, rather than subsidiary banks — in multiple states has lagged far behind. To date, only nine states permit interstate branching. They are scattered across the United States and include Alaska, Connecticut, Massachusetts, Nevada, New York, North Carolina, Oregon, Rhode Island, and Utah. All but Utah require reciprocation by the state that headquarters the bank seeking entry. Because of the McFadden Act, only state banks that are not members of the Federal Reserve System may take advantage of those laws. Thus, the interstate branching movement needs a helping hand.

A Prescription for Change

Giving a well-structured boost to interstate branching is not a simple task, for it requires a careful weighing of several important factors. In taking on that challenge, I find it useful to apply the two-part test that we should apply to all new banking activities generally. To be permissible under this test, a new activity:

- should not adversely affect safety and soundness; and
- should, on balance, benefit consumers of financial services —large and small businesses as well as individuals.

A fair application of this test clearly implies that federal law should permit interstate branching. For that reason, Secretary Bentsen yesterday announced the administration's support for a change in federal law that would give interstate banking companies the opportunity to consolidate their banking subsidiaries into branching networks, with the approval of the appropriate state. Within each branch system, customers would be dealing with the same bank in every state and could make withdrawals and deposits in any branch and still have all transactions recorded as part of their account at the surviving bank, wherever it might be located. The banking organization itself would be more efficient, in part because all the branches would have common policies and operating procedures.

As outlined by Secretary Bentsen, this reform should not threaten the dual banking system. As proposed, banking companies would not be permitted by federal law to establish *de novo* branches across state lines, although states would be free to permit entry by branching as they are today. As proposed, only the states could decide whether or not out-of-state banking companies could convert existing subsidiaries into branches. State laws would also control the terms and conditions of additional branching within the state by banking companies that converted their banks to branches, as they do today.

I will now discuss why interstate branching, as we envision it, meets my two-part test.

Bank Safety

There are several important elements to bank safety. Interstate banking has permitted banking companies to diversify their asset portfolios and their sources of income more fully, reducing the impact of an economic shock in any particular region, and providing a greater margin of safety to the bank and its deposit insurer. Moving from interstate banking to interstate branching increases the ease of accomplishing further diversification.

However, the greatest additional safety and soundness advantage afforded by interstate branching is lower costs. By reducing operating costs, interstate branching would increase returns on equity, directly strengthening the industry's bottom line. Indeed, consolidation of multibank holding company bank subsidiaries into branches would generate cost savings in a variety of ways. It would eliminate the need for multi-

ple charters, boards of directors, and administrative structures; facilitate the consolidation of back-office operations; and allow banks to achieve greater economies in the advertising and marketing of financial services.

Consolidation of banks into interstate branching networks would also reduce the burden of complying with government regulation by decreasing the number of regulatory reports that the bank must file and the number of requests for information that it receives from its supervisor. For example, each quarter, every bank submits a Report of Condition and Income (call report). Those reports are approximately 30 pages long and include about 600 items for banks with over $100 million in assets and about 400 items for smaller banks. Thus, a multibank holding company with 10 separate affiliate banks submits 10 reports each quarter. If a multibank holding company could consolidate its banks into a single bank with branches in several states, it would have to provide only one set of information, not several sets. Savings such as these would complement current efforts by the OCC to reduce unnecessary regulations.

To the extent that banks achieve the potential cost-savings available to them, they will be that much stronger. Consolidation of operations into branches would leave the banking firm's consolidated balance sheet unchanged; it would not add in any way to the risks of banking. Instead, by reducing operating costs and increasing the convenience and value of banking services, consolidation should improve the financial condition of national banks. By realizing cost savings, banks will be able to augment capital, directly improving safety and soundness.

Supervising Interstate Branching Networks

An important part of bank safety is, we would all agree, effective bank supervision. I believe that interstate consolidation would not present supervisory challenges that the OCC does not already face in supervising large multibank companies. Money-center and super-regional banking firms have complex and far-flung operations that often extend over several states and more than one OCC supervisory district. We have met the supervisory challenges posed by those banking companies. The switch from multibank holding companies to consolidated interstate banks could ultimately reduce the severity of these supervisory challenges and allow us to concentrate our resources further on reducing systemic risks to the banking industry and eliminating unfair, deceptive, and discriminatory lending practices.

Our experience in the supervision of large multibank organizations has also prepared us well for supervising consolidated interstate branch networks. Our objectives in supervising national banks involve:

- assessing the condition of each bank and the risks associated with its current and planned activities;
- determining if risk management systems exist, and if those systems are properly designed;
- communicating with bank management and board(s) of directors in a timely and clear fashion about our supervision, the findings of supervisory activities, and those matters that require corrective or remedial attention;
- causing banks to correct deficiencies in condition and/or risk management systems; and
- validating the correction of deficiencies.

The organizational structure used by the financial institution to provide banking services, whether a multibank holding company or a consolidated interstate bank, does not alter these basic supervisory objectives.

Consolidation of interstate operations of multibank holding companies should also provide net operating efficiencies to the regulatory system as a whole. Federal law requires the OCC and the other federal banking agencies to conduct annual examinations of each bank within its jurisdiction. The elimination of the need to maintain separate charters in each state in which financial institutions operate will likely reduce the total number of banks within any given organization and, therefore, reduce the number of separate examinations the regulatory agencies are required to conduct each year. Importantly, a potential reduction in the total number of chartered entities examined will not undermine safety and soundness. Consolidation should permit the supervisory agencies to focus more sharply on the risks to the organization as a whole, to conduct a more efficient review of overall asset quality, and to provide a truer picture of the condition of the institution.

Consolidation may also promote efficiencies in the performance of each examination. For example, the switch from a multibank holding company to a consolidated interstate bank will reduce the total number of directors, officers, and other insiders in any given financial institution and, therefore, make it easier to identify and take corrective action for violations of insider regulations. These changes can only improve bank safety and soundness.

Consumer Benefits

Although the primary benefits of interstate banking consolidation would be in the form of lower bank costs, the potential for some important consumer benefits also exists. The evidence is somewhat mixed, but it appears that interstate banking has benefitted consumers by increasing competition and expanding the array of financial services. Even so, there is much room for improvement. Currently, banking is not as convenient as it could be for consumers who frequently travel across state lines. For example, a customer of a bank in New Jersey located near his or her home may not be able to obtain, conveniently, banking services at an affiliated bank in New York City located near his or her place of work. Consolidation of separately chartered banks into branches under a single charter would make it much easier for customers to conduct transactions at any branch throughout the entire service area of the consolidated bank.

While we believe that interstate branching through consolidation of commonly owned banks is good policy, in part because it will benefit consumers, consumer protection must remain a high priority for bank supervisors.

Consumer Protection

The administration is committed to ensuring that the benefits of a safe and sound banking system extend to all segments of society. Finding better ways to encourage banks to invest in their local communities is a key part of that commitment, particularly with expanded interstate branching.

CRA regulations require banks to address the credit needs of their delineated communities. As banking firms consolidate their operations, the responsibilities of individual banks under the CRA will naturally multiply, and bank supervisors will have to find ways of ensuring that banks that have branches in widely separated areas help meet the credit needs of all of the communities they serve. Interstate branching should not impair CRA performance.

This is a challenge that we can surely meet. It is the same problem that federal banking agencies and banks already face in crafting meaningful CRA evaluations in states that permit statewide branching. This is one of the issues that the federal banking agencies are currently reviewing as part of the president's initiative to make fundamental changes in CRA administration. I believe that the revised CRA evaluation process will provide an appropriate model for assessing the performance of banks with interstate branches.

For all of its importance, CRA is not the only federal protection of consumer interests. Other protections are provided by laws extending from the Equal Credit Opportunity to Fair Housing to Truth in Lending and Truth in Savings, just to name a few. As in the case of CRA, bank supervisors have had ample experience in enforcing those laws with respect to large intrastate branching networks. We are prepared to enforce them with respect to large interstate branching networks.

Service to the community is not, of course, defined exclusively in terms of adherence to consumer protection and related laws. It is also defined in terms of the personalized service that is the hallmark of small community banks. We are confident that community banks will continue as strong competitors in an era of interstate branching.

When large and small banks compete in the same geographic markets, good management — not size — is the primary determinant of a bank's success. Pennsylvania, for example, moved from highly restrictive branching to full intrastate branching during the 1980s. Small banks continue to operate successfully there. As of June 30, 1993, there were 139 national banks in Pennsylvania, 60 of which had assets of less than $100 million. All of those banks were well capitalized.

Consequently, we expect community banks to retain their traditional role in local credit markets, and creditworthy local borrowers should continue to be able to obtain the financing they need. Successful banks traditionally have been those that best meet the needs of the markets they serve. Competitive forces have led many large banks to become adept at providing a high volume of services at low cost, but this advantage is generally limited to products that do not require a high degree of personal service. Many small banks, on the other hand, have excelled at providing high-quality, personalized services to their clients. This is particularly true of small business lending, which requires knowledge about small borrowers and local credit conditions that community banks are more likely to possess. Local customers who value customized service are therefore likely to continue to seek the financial services of smaller banks, whether or not a branch of a large bank is located across the street.

Finally, we must continue to ensure the proper application of the antitrust statutes to banking. I am aware of some studies that argue that interstate branching will lead inexorably to higher concentration ratios and reduce competition in local banking markets. While intuitively appealing, many recent studies have not found strong evidence in support of those claims. In fact, between the mid 1970s and 1990, the percentage

of deposits in urban and rural markets held by the three largest banks in those markets dropped slightly, on average.[2]

Research by OCC economists also suggests that interstate branching will not inevitably lead to reduced competition. Rather than relying upon statewide concentration ratios, OCC staff computed the Herfindahl-Hirschmann concentration index (HHI), a measure of concentration preferred by many researchers.[3] We calculated deposit-based HHIs for banks and thrifts in 29 urban markets in Indiana, Oregon, South Carolina, and Washington for the years 1988 through 1992. We chose those states because they witnessed significant entry by out-of-state banking companies in recent years. Over the four-year period, HHIs declined in 14 of the 29 markets; for the remaining 15, the median increase was under 8 percent. Although our study is far from comprehensive, it indicates that local market concentration has not increased rapidly in selected states with considerable acquisition activity by out-of-state banking companies.

Conclusion

For many years, observers both inside and outside government have pointed out the need to remove the archaic restrictions placed on the U.S. banking system. Our banking system would function more efficiently without them and would be better positioned to meet the convenience and needs of the banking public. Interstate branching would be an important step in that direction, permitting banks to serve their customers better and at lower cost, while enhancing the safety and soundness of the banking system.

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[2] *Statement by John P. LaWare before the Committee on Banking, Housing and Urban Affairs, U.S. Senate, October 5, 1993.*

[3] *In contrast to typical concentration ratios, HHIs take into account the market share of all institutions the researcher is studying, not just the largest ones.*

Statement of Eugene A. Ludwig, Comptroller of the Currency, before the House Committee on Banking, Finance, and Urban Affairs, on safety and soundness issues associated with derivatives activities, Washington, DC, October 28, 1993

Mr. Chairman and members of the committee, I am pleased to respond to the questions in your letter of October 5, 1993, concerning the safety and soundness issues associated with bank derivative activities.

A1. Please define and explain the systemic risks associated with bank derivative activities.

Systemic risk is the risk that a disruption by any market participant, or group of participants, could cause widespread difficulties for other participants in other market segments, or in the financial system as a whole. Systemic risk is a result of ordinary market activities, including derivatives activities. Derivatives are not the sole, or even the principal, source of systemic risk in financial markets. However, systemic risk arising from derivatives activity has certainly increased in recent years, as derivatives markets have grown in volume and complexity.

A systemic disruption could begin with a large loss on a derivatives position at an individual firm. As the response to question A2 describes, institutions engaging in derivatives activities take on a variety of risks, and those risks are often linked in complex ways. If improperly managed, those risks, taken singly or in combination, could lead to large losses.

The growth of derivatives markets and rapid changes in technology and telecommunications have increased market efficiency but also have increased the sensitivity of the financial system to shocks. Those changes have brought financial markets closer together, with the result that market dynamics can aggravate the effects of a loss at an individual firm.

The Office of the Comptroller of the Currency (OCC) believes that the best defense against systemic risk is for each bank to implement effective risk management systems that ultimately include limits and controls on interconnection risk[1] and the ability to monitor the exposure resulting from the covariance between one or more risk factors. We are preparing a banking circular and supplemental guidance for examiners that emphasize the need for all banks to have risk management systems in place that are sufficient to measure, analyze, and control each of the risks arising from derivatives activities, and to have sufficient capital to absorb potential losses from those risks. We expect to issue the banking circular shortly, and to issue the guidance within the next few weeks.

A2. Please define and explain the risks associated with individual bank involvement in derivatives activities.

The risks that arise from bank derivative activities are the same risks that arise from more traditional banking activities: credit risk, market risk, liquidity risk, operational risk, settlement risk, and legal risk. However, the risks associated with derivative products can often be linked in different ways. Those linkages make interconnection risk a prominent feature of derivatives. As a result, managing those risks can require, particularly for banks that are more active in derivatives markets, different risk measurement methodologies and stronger risk control and management systems. The forthcoming banking circular and examiner guidance will state the need for banks to have systems in place to adequately measure, monitor, and control each individual type of risk, as well as the interdependencies among those risks.

Credit Risk. Credit risk is the risk of loss in the event the counterparty to a transaction defaults or otherwise fails to perform under the terms of a contract.

Credit risk exposure for exchange-traded or over-the-counter (OTC) derivatives contracts consists of two components: (1) current replacement cost of the contract[2] and (2) potential increases in replacement cost if market prices move further.

For exchange-traded derivatives (futures and options), credit risk is absorbed by the futures exchange clearinghouse, which stands as the counterparty to all transactions. Credit risk exposure associated with OTC options and derivative contracts that contain options (options, swaptions, and rate protection agreements) consists of the same two components described above, current replacement cost and potential replacement cost. In the case of option contracts, however, only one party — the writer or seller of the contract — is obligated to perform. Hence, the party purchasing the option contract takes on all the credit risk, since it

[1] *Interconnection risk is defined in the response to question A2.*

[2] *Replacement cost is much smaller than the notional principal amount. The notional principal is the basis for calculating the amounts exchanged, but it does not reflect the amount actually exchanged, except in some currency derivative transactions.*

is exposed to risk of loss if the writer of the option defaults.

Market Risk. Market risk is the risk that a bank's derivatives position may decline in value due to changes in a variety of market factors, including interest rates, exchange rates, commodity prices, or equity values. Such losses may adversely affect a bank's earnings and capital. Market risk is appropriately measured on a portfolio basis, in terms of the net price sensitivity of the portfolio of contracts.

Market risk depends on the potential magnitude of change in the price of the underlying asset and on the relationship between changes in the value of the underlying asset and the value of the derivative position (the price sensitivity of the instrument). Price sensitivity is particularly important for options or derivatives that contain options.

Liquidity Risk. Liquidity risk with respect to financial derivative products can be categorized into two types —market/product liquidity risk and cash flow risk.

Market/product liquidity risk is the risk that an institution will not be able to sell a financial asset or off-balance-sheet instrument at, or close to, its fundamental value. In times of market stress, market liquidity can change rapidly; in some markets, it can change significantly over the course of the trading day. Generally, OTC-traded derivatives are subject to greater amounts of market liquidity risk than are exchange-traded derivatives, because the latter are standardized contracts that are backed by a clearinghouse.

Cash flow liquidity risk is the risk of loss when a party is unable to raise the funds necessary to meet cash flow obligations at an acceptable price as those obligations become due.

Settlement Risk. Settlement risk is the short-term risk an institution faces when it either pays out funds or delivers assets before receiving assets or payment from its counterparty. For example, in foreign exchange markets, the time differences between normal payment hours in different countries can create gaps between offsetting payments from a single transaction. Or, settlement risk can arise when payment and delivery of securities does not occur simultaneously. The time horizon for settlement risk is usually less than 24 hours.

Operating Risk. Operating risk is the risk of loss due to inadequate internal controls or procedures, inaccurate assessment of risk, human error, system failure, or fraud. Such loss could occur, for example, when a bank takes on open positions or credit exposures that exceed established limits, or in the absence of proper communication between senior management and the operating and trading departments that are executing, valuing, recording, and monitoring derivative product transactions.

Legal Risk. In the United States, a significant source of legal risk has been the potential application of the off-exchange trading prohibition of the Commodity Exchange Act (CEA). For the purposes of the CEA, the terms "futures" and "options" have been interpreted broadly by the Commodity Futures Trading Commission (CFTC), leading to concerns that OTC derivatives would be found to be illegal off-exchange futures. After initially indicating that swap contracts would be subject to the provisions of the CEA, the CFTC issued a policy statement in 1989 indicating that swap agreements meeting certain conditions would not be considered to be illegal futures. The CFTC has replaced that policy statement with a rule under the expanded exemption authority it received as a result of the recent passage of the Futures Trading Practices Act of 1992. This change significantly reduces the risk that most swaps and similar instruments would be deemed to be illegal off-exchange futures.

Another source of risk arises with regard to the legal enforceability of netting provisions under which exposures from multiple derivative transactions are netted. Institutions use master agreements with netting provisions to reduce the overall level of credit risk (and the frequency and amount of payment) to a counterparty. When a bank enters into contracts with a counterparty subject to a master agreement, the bank takes the risk that, in the event of the counterparty's failure, the receiver for the counterparty will not recognize the validity of the netting provisions. The receiver could repudiate individual contracts under which the counterparty was obligated to pay the bank, while demanding payment on those contracts on which the bank was obligated to pay the counterparty — the practice of "cherry picking." Recent legislative changes have significantly reduced this risk for U.S. financial institutions dealing with counterparties in the United States, but this risk continues to be important with regard to U.S. bank dealings with some non-U.S. counterparties.

The OCC expects banks to limit their legal risk by obtaining opinions of counsel and satisfying themselves that counterparties have legal authority to enter into master agreements and that agreements and the netting provisions contained therein are enforceable under relevant laws, and by strengthening due diligence reviews of counterparties.

Aggregation or Interconnection Risk. Aggregation or interconnection risk arises when one derivatives position interacts with the institution's other positions, in

derivatives products and in the underlying markets. These interactions frequently involve both cross-border and cross-market links and a wide range of financial instruments. They have increased in number and complexity as markets have grown.

A3. What steps has your agency taken to ensure the safety and soundness of banks involved in derivative product activities?

OCC supervision includes a number of activities that enable us to monitor the safety and soundness of national banks engaged in derivatives activities: we allocate sufficient examiner resources to supervise the banks most actively involved in derivatives activities as dealers and market-makers; we are issuing guidance to both examiners and bank personnel regarding the risk management processes that should govern such activities; and we are working to ensure that the risk-based capital rules, and the changes thereto currently under discussion within the Basle Committee and with other U.S. bank regulatory agencies, capture the credit and market risk associated with derivatives transactions.

On-Site Supervision

We have assigned full-time examiner staffs to the lead national bank of all the largest banking companies.[3] That group of banks includes dealers and the largest "end-users" of derivative products. Examiners monitor the bank's trading, dealing, and risk management activities, including its derivatives activities, and they analyze the impact of the risks associated with derivative use in the context of the bank's overall risk profile. In particular, they periodically review the bank's risk positions and profitability trends, and conduct periodic examinations of various product areas to ensure the propriety of management processes governing these instruments.

Each of the other national banks is assigned to an examiner who is responsible for supervising its activities, risk levels, and reviewing the adequacy of its risk management processes.

[3] *The OCC's supervisory process assigns a national bank examiner to all national banks. This examiner, commonly referred to as the examiner-in-charge (EIC), is responsible for ongoing communication with the bank. In the 40 largest companies under OCC supervision (those companies each hold national bank assets of greater than $10 billion), the EIC is in residence at the bank and is supported by a staff, commensurate with the size and sophistication of the bank's activities Those 40 banks hold approximately 75 percnt of all national bank assets*

Written Guidance

The OCC provides written materials to guide examiners in the examination process and to inform bank managers of the risk management processes that should be in place to govern activities involving derivative products. Some of that guidance focuses on dealer activities; other materials are directed at end-user activities.

The primary resource for supervision of dealer activities is the *Source Book*, which is produced by the OCC's Chief National Bank Examiner's Office. Applicable sections of the *Source Book* include: Trading Activities, Arbitrage/Hedging Activities, Commodity Derivatives Markets, Foreign Currency Options and Risks, Comparative Risk Table, and Risk Analysis Framework.

The procedures and guidelines in the *Source Book* establish a framework that can be adapted to the examination of trading portfolios of all types, including derivative products. The *Source Book* also addresses back-office controls, such as segregation of duties for transaction input, confirmation generation, and report preparation. Although the rapidly changing nature of the derivatives markets results in a stream of new products and continual changes in existing products, the basic management concepts of accurate risk measurement systems, proper revaluation techniques, appropriate reporting lines, and sound policies apply to all derivatives trading activities.

The primary resources for evaluating end-user activities are the *Source Book*, and the *Comptroller's Handbook for National Bank Examiners*. The applicable sections of the *Source Book* include Interest Rate Risk Management and Liquidity Risk Management. The applicable sections of the *Comptroller's Handbook* provide guidance for examining risk management activities: Section 405—Funds Management and Section 813—Foreign Exchange.

An additional resource for examiners reviewing derivatives used for risk management purposes is Advisory Letter 90-1, "Interest Rate Risk." The letter outlines OCC's expectation that national banks have a comprehensive system (including a policy statement regarding the assumption and management of interest rate risk, senior management and board oversight, risk measurement systems, and risk limits) to monitor and control their interest rate risk exposure.

There are three resources that provide guidance for examining derivatives activities at dealer *and* end-user institutions. Banking Circular 79 discusses the policies and procedures required of national banks that engage in financial futures contracts, forward placement con-

tracts, or standby contracts. It also addresses the accounting treatment for these products. Banking Circular 228 outlines supervisory policies for mortgage derivative products and stipulates that securities trading activities (including trading in mortgage derivative instruments) should only be conducted in a closely supervised trading account by banks with strong capital and earnings and adequate liquidity. The *Comptroller's Handbook for National Bank Examiners*, Section 203—Investment Securities, provides general examination guidelines for banks using futures, forwards, and options in trading activities and for risk management purposes. Section 405—Funds Management provides examiner guidelines for swap activities.

Reference documents are also available for examiners reviewing derivatives activities. One such resource, provided to all examiners and all national banks, is *An Examiner's Guide to Investment Products and Practices*. The *Guide* includes specific sections describing derivative products, markets, and risks and applicable policies and procedures.

The forthcoming banking circular on risk management of financial derivatives activity, which will supersede Banking Circular 79,[4] will further address the types of systems and controls that the OCC considers appropriate in connection with the management of credit, market, liquidity, and operating risks. This revised guidance will also alert national banks to significant legal issues associated with engaging in derivatives transactions and the OCC's expectation as to how these issues should be addressed.

A4. Do current international and domestic capital standards adequately reflect the risks associated with derivatives activities?

The OCC believes that the inclusion of off-balance-sheet counterparty exposures into capital standards was an important and necessary step in ensuring that banks maintain adequate capital for derivatives activities. However, the OCC also recognizes that the current standards do not explicitly consider market risk and that, as new products or activities emerge in the derivative markets, the risk-based capital standards may need revision. Hence, the OCC is actively involved in several initiatives that, if adopted, would result in modifications and additions to the current risk-based capital treatment of derivatives. The scope of these initiatives includes credit and market risk. They are being pursued jointly with the other U.S. banking agencies (primarily the Federal Reserve Board and the Federal Deposit Insurance Corporation) and with international supervisors through the Basle Committee on Bank Supervision.

Currently, the OCC's capital standards address risks arising from derivatives activities through a combination of explicit regulatory *minimum* capital standards and evaluations of a bank's capital adequacy through the examination process. Our risk-based capital requirement (12 CFR 3, Appendix A) imposes an explicit capital charge for the credit (counterparty) risk exposure in financial derivative products. This capital charge applies to interest rate and foreign exchange (FX) swaps, forward rate agreements, and purchased interest rate and FX options.[5] This capital charge is determined by a two-step process: (1) the calculation of the "credit risk equivalent" (CRE) amount of the contract and (2) the assignment of the CRE amount to the proper risk-weighting category, based on the counterparty to the contract. The CRE of the contract has two components: (1) the mark-to-market exposure, reflecting the current replacement cost of the contract, and (2) the potential risk add-on exposure, reflecting the potential for the replacement cost to increase over the life of the contract. This treatment has been extended to apply to newer derivative products, including commodity and equity-index swaps.

The initiatives that are being studied or developed are described below. The OCC believes the results of these initiatives will enhance regulatory capital standards for, and supervision of, derivative activities. However, the OCC also believes that the importance and complexity of these proposals demands that we provide sufficient opportunities for public review and comment on the proposals. The OCC will carefully consider these comments before adopting any proposals. Further, given the truly global span of derivative markets, the OCC strongly believes that uniform capital regulations among banking agencies and countries is desirable to prevent competitive inequalities and to ensure prudential banking standards in all major markets.

Capital Initiatives Under Study or Development

Credit Risk:

(a) *The Basle Committee Proposal on Netting* would recognize legally enforceable bilateral netting arrangements when computing a bank's counterparty credit risk exposure in derivatives. Presently, only netting by

[4] *The accounting provisions of Banking Circular 79 will remain in force, however, because they will continue to be contained in the instructions to the call report.*

[5] *Contracts that are traded on an exchange requiring the daily payment of any variations in the market value of the contract, such as futures traded on U.S. exchanges, are not subject to the capital requirements.*

novation[6] is permitted. Although this proposal would have the effect of reducing the current capital charge for certain derivatives, the OCC believes that this proposal, by encouraging the use of enforceable bilateral netting arrangements, will reduce the level of settlement risk, and therefore, systemic risk in the derivatives markets.

The Basle Committee released a consultative paper on this proposal in April 1993. The OCC anticipates issuing a notice of proposed rulemaking to seek public comments on this topic by year-end.

(b) *The Basle Committee Subgroup on Off-Balance Sheet Activities* is reviewing the current risk-based capital treatment of derivatives for counterparty risk. This review could lead to recommended changes in the factors used to estimate "potential future" counterparty risk for some financial derivatives. This work is still under discussion by the Basle Committee's subgroup, and no formal proposal has been made.

(c) *The OCC's Notice of Proposed Rulemaking on Collateralized Transactions*, which was recently published, would amend the risk-based capital guidelines to lower the risk weight from 20 percent to zero percent for particular transactions that are collateralized by cash or government securities. The latter treatment would more accurately reflect the near absence of credit risk and the minimal operational risk for certain transactions. Although not specifically listed as a type of transaction covered by the proposed rule, the OCC requested comment on, and is considering including, collateralized swap counterparty exposures among the transactions that could receive a zero percent risk weight. We anticipate working with the Federal Reserve Board to ensure a uniform application of our respective collateralized transactions rules. The Federal Reserve Board published its final rule on collateralized transactions at the end of 1992.

Market Risk:

(a) *The FDICIA Section 305 Proposal* would establish a system for measuring a bank's overall interest rate risk exposure and would provide a basis for requiring capital for exposures that exceed a threshold level. Derivatives would be incorporated into the risk measure.

The U.S. banking agencies issued a joint Notice of Proposed Rulemaking on this proposal on September 14. The comment period for the proposal closes on October 29.

(b) *The Basle Committee Proposal on Market Risk for Trading Books* would incorporate a capital charge for the market risk of equity and debt derivatives that are part of a bank's trading activities. This charge would be in addition to the current risk-based capital charge for counterparty (credit) exposures. The charge would *not* be applied to derivatives held outside of trading portfolios, such as those used to hedge structural balance-sheet positions.

The Basle Committee issued a consultative paper on this proposal in April 1993. The consultative period closes December 31, 1993. Any proposal to modify the OCC's current risk-based capital guidelines that might result from this consultative paper would be issued for full public comment through the rulemaking process before being adopted. The OCC will carefully consider these comments before adopting any proposals.

(c) *The Basle Committee Proposal on Foreign Exchange Risk* would introduce a capital charge on a bank's net open foreign currency and precious metals positions. Any foreign exchange or precious metal derivative instrument would be included in determining a bank's net open position. This charge would be in addition to any applicable counterparty or market risk capital charges that are under consideration by the Basle Committee.

Also in April 1993, the Basle Committee issued a consultative paper on this proposal, and the consultative period closes December 31, 1993. As with the market risk proposal, the OCC would seek public comments through the rulemaking process and carefully consider those comments before adopting any change to its current risk-based capital guidelines.

A5. Please summarize your agency's strategy for supervising bank derivative product activities.

The OCC's supervisory strategy with regard to national bank derivatives activity is to ensure that (1) senior management and the board of directors understand and control the risk levels that result from derivative products and (2) the bank has in place adequate risk management processes to govern the use of those products. Our forthcoming banking circular on derivatives activities will make it clear that we expect national banks engaging in derivatives activity to have or adopt a "no surprises" risk management policy that is backed by adequate systems and controls. Such a policy would focus on maintaining appropriate and meaningful risk

[6] *Netting is the agreed offsetting of positions or obligations by trading partners or participants in a system. Netting reduces a larger number of individual positions or obligations to a smaller number of positions. Novation refers to the satisfaction and discharge of an existing contractual obligation by the substitution of new contractual obligations. Netting by novation occurs, therefore, when the existing contractual obligation is extinguished by the subsequent new obligations.*

exposure limits, risk management units that are independent of business and trading units, sophisticated back office and front office personnel and systems, meaningful and timely communications between trading, risk management, and operation units, and detailed counterparty credit analysis. The policy would pay particular attention to issues of counterparty authority, the enforceability of master agreements, and rights with respect to margin and collateral.

Examiners execute our supervisory strategy through periodic examinations that assess the levels of each type of risk the bank faces and the bank's overall risk profile. Examiners also evaluate risk management processes, including the appropriateness of policies governing risk limits, the accuracy and adequacy of risk measurement and monitoring systems, appropriateness of independent oversight functions, and quality of internal controls. Examiners use the guidance listed in the response to question A3 in performing these functions.

If the examiner believes a bank's overall risk has or will become too great, he or she will raise those concerns first to OCC management and then, if appropriate, with the bank's board of directors. The OCC will then take action to require the bank to reduce its risk to a more modest level or to raise additional capital to compensate for the risk level it has assumed.

Similarly, if the examiner concludes that a national bank's risk management processes are inadequate for current or planned activities, the OCC requires management to implement appropriate improvements or curtail the risk level.

A6. What steps has OCC taken to ensure examiners are properly trained to supervise derivative activities? How many examiners are trained to supervise bank derivative activities? Is there a separate "derivatives" examiner corps at the OCC?

The OCC provides training and guidance for examiners supervising off-balance-sheet activities and has identified a cadre of capital market specialists who focus their attention on banks' capital market activities.[7] The OCC does not have a separate "derivatives" examiner corps.

Training and Guidance

The most important training that OCC examiners supervising bank off-balance-sheet activities receive is on-the-job, through participation in on-site examinations of banks using derivative products. OCC examinations at the largest trading banks are staffed with a mix of very experienced to modestly experienced examiners. We rotate our examiners among districts and institutions to provide them with exposure to different derivatives activities, risk management systems, technological systems, etc. Hence, we provide our less experienced examiners with substantive training, while helping our more specialized examiners to remain abreast of developments in the derivative markets.

OCC examiners supplement the knowledge and experience they gain on-the-job by attending a variety of training programs that specifically address bank off-balance-sheet activities, including activities related to derivative products and markets. Examiners receive such training through programs provided by the OCC and the Federal Financial Institutions Examination Council (FFIEC).

Capital Markets Specialists

The OCC has a cadre of 56 capital markets specialists — field examiners who focus their attention on supervising banks' capital markets activities.[8] Those examiners receive specialized training on an ongoing basis, through the annual capital markets seminar and through periodic seminars on specialized topics. At those seminars, OCC staff and industry experts discuss a wide variety of capital market topics, including a variety of issues associated with derivative products.

We provide our capital markets specialists with written reference materials related to financial markets and instruments. For example, they receive a quarterly Capital Markets Newsletter, produced by our Chief National Bank Examiner's office. The newsletter provides an annotated bibliography of the most important articles on derivatives that were published in various periodicals and industry publications during the prior quarter and often features articles written by OCC staff on derivatives.

In addition, a number of OCC staff members at our Washington headquarters specialize in issues related to supervision of bank derivatives activities. Those staff members provide support for our capital markets specialists.

A7. To what extent does our multilayered bank regulatory system complicate efforts to supervise derivatives activities at federally insured depository institutions?

[7] *OCC's capital market specialists examine the bank's trading and treasury activities, including its use of derivative instruments in those contexts, and also its compliance with certain capital markets-related laws and regulations.*

[8] *Some of those examiners are assigned to larger banks; others specialize in examining smaller banks.*

Would a single bank regulatory agency improve oversight and supervision of bank derivatives activities? Please explain the reasoning behind your call for an interagency task force on derivatives.

The fact that there are four federal regulators of banks and thrifts complicates all supervision to some extent. However, the problems of interagency coordination are no different for derivatives than for any other aspect of bank supervision. Indeed, to the extent that derivatives activities are concentrated in a relatively small number of large institutions that are intensively supervised, interagency coordination may be easier than in other areas.

The OCC, the FDIC, the FRB, and the Office of Thrift Supervision (OTS) work together routinely to meet their supervisory and regulatory responsibilities. Coordination and cooperation occur through informal channels, such as regular meetings of the heads of the regulatory agencies, and through formal structures such as the Federal Financial Institutions Examination Council (FFIEC) and the Interagency Country Exposure Review Committee. In addition, the OCC's district offices work with state regulators to improve the coordination of efforts and sharing of information where we have joint responsibility for multistate and multicharter banking companies.

Interagency coordination has been a particular focus of the Clinton administration. For example, the administration's initiatives to improve the availability of credit have been implemented through joint interagency guidelines or coordinated rulemakings. The agencies held joint public hearings on Community Reinvestment Act (CRA) reform, and are working together on ways to make the CRA work better. The agencies have also improved their coordination of examinations, under an interagency policy statement issued on June 10.

My call for an interagency task force on derivatives was intended to apply the principles of interagency coordination in developing supervisory policies for derivatives. The staff-level interagency working group, which is an informal group currently composed of representatives of the OCC, the FDIC, the FRB, and the OTS, has established two limited objectives for the time being: (1) to share information with respect to the extent and nature of bank and thrift involvement in the derivatives market, and (2) to work on developing consistent regulatory accounting principles with respect to derivatives transactions. At some point, we hope to expand the group to include the Commodity Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC).

A8. How does regulation and supervision of derivatives activities differ between banks and nonbanks?

All corporations, including banks, that execute and clear futures and options products through public exchanges are regulated by the CFTC and designated self-regulatory organizations. Accordingly, they operate under these regulators' record-keeping, capital, margining, and uniform and fair practice rules.

All over-the-counter derivative activities conducted by banking companies are subject to oversight and supervision by the banking agencies. However, certain OTC derivatives transactions are conducted by nonbanks in legal entities that are not regulated by either the CFTC or the SEC or by any of the state or federal bank regulatory agencies.

Historically, the style of bank regulation, which has been carried out in large part through on-site examinations, has differed greatly from nonbank regulation. As a result, we believe that bank participants in derivatives markets are subject to greater regulatory scrutiny than their nonbank counterparts.

A9. Does your agency support additional financial reporting requirements (e.g., credit exposure, replacement cost exposure, etc.) related to bank derivative product activities?

The OCC does not believe that current reporting requirements provide adequate public disclosure of financial derivatives exposures. The OCC believes there is a need for financial institutions engaged in derivative activities to increase their disclosures regarding the nature and importance of those activities and the sustainability of earnings. Such increased disclosures would contribute to systemic stability by increasing market scrutiny of derivatives activity. We are considering revising and/or expanding the current disclosures required of national banks, on our own, through the informal interagency task force, and in conjunction with the Financial Accounting Standards Board (FASB).

Whatever additional and/or modified disclosures are determined to be appropriate, we believe such requirements should apply equally to all market participants (e.g., to broker-dealers, insurance companies, and other financial institutions as well as banks).

A10. Does your agency support changing U.S. and international accounting standards to reflect more standardized reporting of derivatives information contained in bank financial statements?

The OCC believes that changing U.S. and international accounting standards to reflect more standardized reporting of derivatives information for all financial entities engaged in derivatives activities would confer substantial benefits to the financial entities themselves and to users of their financial statements.[9] The OCC is concerned that national banks may be affected by inconsistent accounting standards when evaluating the off-balance-sheet exposures of counterparties to derivative transactions into which they enter.

We are also concerned that the lack of uniform standards could cause U.S. banks to suffer a weakened competitive position vis-a-vis their foreign counterparts and other U.S. financial institutions. For example, national banks could suffer competitive disadvantages if other institutions were permitted to defer derivative gains and losses under more liberal conditions. Deferring gains and losses allows institutions to reduce the volatility of their earnings and provides them with additional flexibility in pricing financial products they are offering for sale.

Hence, the OCC continues to participate in domestic efforts to develop consistent accounting standards for derivatives. As a member of FASB's Financial Instruments Task Force, the OCC's Chief Accountant participates in FASB's efforts to address issues related to U.S. accounting standards for derivatives and other financial instruments. The OCC also participates in the FFIEC's interagency review of accounting practices, which includes review of derivatives accounting practices.

A11. Are bank risk management systems adequate to address the risks of derivatives activities? Please differentiate between the large, well-established dealers versus new entrants to the derivatives market. Is your agency developing standardized guidelines for bank risk management systems?

Our examiners have found that the well-established dealers — the large banks with the most experience with derivatives — have in place, or are moving to establish, systems that are adequate to perform such analysis. We are concerned, however, that some of the newer entrants to the markets may be relying on systems that evaluate derivatives' risks in ways that do not fully reflect all of the risk factors. We are also concerned that those banks might not use evaluation techniques that formally recognize the interdependencies among these risk factors.

Our forthcoming guidance on the risk management of derivatives will emphasize the need for banks to properly measure and monitor the individual and aggregate risks associated with their derivatives portfolios, and set and follow appropriate risk limits. All national banks engaged in derivatives transactions should have comprehensive risk management systems that are commensurate with the scope, size, and complexity of their activities and assumption of risks. The guidance will emphasize that such systems should enable the bank to adequately measure, monitor, and control the potential reductions in earnings and capital that arise from the risks associated with their derivatives activities. The guidance will be sufficiently flexible, however, to allow banks to develop systems that are most appropriate for their particular circumstances and needs.

A12. Does your agency require senior managers and board members to pass competency tests to ensure they are experienced in managing the risks associated with derivative activities?

The OCC does not require senior managers or board members of national banks to pass competency tests for derivatives activities. Rather, we monitor, through bank examinations, the effectiveness of senior management and board oversight of bank activities, including derivative activities. OCC policy requires banks to ensure, through effective senior management supervision and board oversight, that their activities are conducted in a safe and sound manner, and in a way that is consistent with the board's overall risk management philosophy and the bank's business strategies.

We believe it would be inappropriate to set special competency requirements for members of the boards of directors of national banks. The board is responsible for governing the overall condition of the bank. As such, directors are not required to possess specialized experience or expertise in specific areas of bank operations, but rather to provide broad oversight and maintain a strong, independent, and active involvement in the bank's affairs.

A13. Should banks have at least two directors that have direct experience in managing the risks associated with derivative activities?

The OCC regards the board of directors of a national bank as a governing body that must possess the experience, knowledge, and understanding to identify

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[9] *The Group of 30 noted in its July 1993 report, Derivatives: Practices and Principles, that "...[the lack of consistent accounting standards] makes it difficult for users of financial statements to understand an organization's use of derivatives and the accounting bases upon which its financial statements have been drawn up. Because of this lack of transparency, users of financial statements may be misled into making credit and investments judgments they might not otherwise have made."*

and address the issues of concern to the bank. OCC policy requires effective board supervision of the risks inherent in a bank's activity, including its derivatives activity, and the OCC examination process specifically addresses the issue of board supervision.

The appropriate size and composition of a bank's board of directors depends on the bank's individual circumstances, its business strategy, and its view toward risk. We do not believe it is necessary for board members who are overseeing derivatives activities to possess direct experience in managing the risks. Such experience is essential, however, for line managers with direct responsibility for the bank's derivatives transactions.

A14. Under what scenario(s) could an individual bank fail as a result of derivatives-related activities? What catastrophes in the markets could cause a derivatives-related bank failure? Are banks required to formulate/simulate plans for such catastrophes?

As the response to question A1 describes, institutions engaging in derivatives activities take on risks that are often linked in complex ways. If improperly managed, those risks could result in substantial harm to the bank. Furthermore, the growth of derivatives markets, and the complexity inherent in many derivative instruments, has increased the vulnerability of individual firms and the financial system as a whole to external shocks.

The OCC believes that the best and appropriate defense against such events is for each bank engaging in derivatives activity to properly measure, manage, and control its risk. Our forthcoming guidance on financial derivatives activities will require national banks to adopt and have in place a "no surprises" risk management policy. We will require national bank dealers of derivative products to regularly perform scenario analysis to determine the effect of various market environments, including abnormal market environments, on the market value of their portfolios. The guidance will emphasize the need for banks to be prepared for such conditions by performing simulations under which normal assumptions about market conditions no longer apply. We will require banks to be aware of how their portfolios would perform in the event of abnormally large market swings, a prolonged period of market inactivity, an overall disruption in market liquidity, or a decline in the credit quality of the bank itself or of specific major counterparties. We will require banks to develop contingency plans accordingly.

Such precautions will greatly reduce the likelihood that significant, commonly occurring market events — such as unexpectedly large and volatile fluctuations in interest or exchange rates — could either give rise to failure of an institution or have systemic consequences.

B1. What percentage of derivatives products are provided by commercial banks (i.e., what is the commercial bank market share)?

Commercial banks' share of derivatives markets cannot be calculated because the sizes of the markets are unknown. The limited data on derivatives that are available are not comparable to the available data on banks' derivative activities. There is no single entity of which we are aware that monitors and collects data on activities in derivatives markets domestically or worldwide. Given the customized nature of some OTC derivatives, it would be difficult to obtain completely comprehensive data on overall market activity.

However, several entities collect information that provide insight into certain kinds of derivative activity. *The World's Major Swap Dealers*, published by Swaps Monitor Publications, Inc. in November 1992, reports derivative data obtained from audited 1991 public information. (See the accompanying table.) The report covers many, but not all, of the world's major companies active in selected derivative products. The data are on a consolidated company basis, so for U.S. firms, the data are for bank holding companies (BHC) rather than for commercial banks. The data indicate that U.S. BHCs have significant total market share in the four derivative product types. Please note, however, that the data on the volume of derivative contracts contain an unknown amount of double counting because two reporting entities involved in opposite sides of the same contract both may be included.

U.S. Bank Holding Companies
Share of World Derivative Markets
Selected Products
($ billion)

Interest rate swaps:	35 of the largest firms
World total	$3,275
U.S. BHC total	$1,504
U.S. BHC share	46%
Interest rate options:	23 of the largest firms
World total	$1,262
U.S. BHC total	$ 812
U.S. BHC share	64%
Currency swaps:	16 of the largest firms
World total	$ 485
U.S. BHC total	$ 302
U.S. BHC share	62%
Foreign exchange forwards:	44 of the largest firms
World total	$4,921
U.S. BHC total	$2,526
U.S. BHC share	51%

Source:The data given in the table are based on data from The World's Major Swap Dealers, *Swaps Monitor Publications, Inc., 1992*

B2. Please provide a list of commercial banks that offer derivative products. Break the information down by type of derivative product and identify the banks that are considered dealers.

The accompanying tables provide the notional amount of derivative activities as of June 30, 1993, for commercial banks that engage in derivative activities. The tables report the derivatives activities of each of the 25 commercial banks with the most derivatives activities by type of activity and the other banks that also engage in the activity. These other banks are not listed separately because, although there are 591 other commercial banks reporting derivatives holdings, together they account for only 4 percent of the notional amount of outstanding contracts. There are four tables reporting the notional amount of outstanding contracts for commercial banks and four identical tables for national banks.[10] The tables provide data on total derivatives activities, futures and forwards activities, swap contracts, and option contracts.

The OCC considers a bank to be a derivatives dealer when it takes on principal risk and actively provides market liquidity to customers and other dealers. By that definition, there are 10 commercial banks that are derivatives dealers. Six of those banks are national banks, which are supervised by the OCC. The six national banks are:

Citibank, N.A.
Chase Manhattan Bank, N.A.
Bank of America, N.T.&S.A.
First National Bank of Chicago
Continental Bank, N.A.
Republic National Bank of New York

There are four state-chartered banks, supervised by the Federal Reserve Board, that are derivatives dealers. Those banks are:

Chemical Bank
Bankers Trust
Morgan Guaranty
Bank of New York

B3. Are bank derivatives activities profitable? How important are derivatives-related products to overall bank profitability?

[10] *In general, the large bank holding companies conduct their derivatives activities in their lead banks. It should be noted, however, that in many instances the reported notional amounts of outstanding contracts at the lead bank (which are the amounts given in the accompanying tables) are greater than the amounts reported by the holding company. This is because the contracts that a bank enters into with other holding company subsidiaries are netted in the holding company reports*

There are currently no comprehensive or systematic sources of data on the profitability of bank derivatives activities that are comparable across banks or banking companies. Our examiners monitor the level of a bank's risk and the quality of its risk management associated with derivatives activities in relation to the bank's other activities (e.g., trading, dealing, and treasury functions). Therefore, our analysis does not require banks to separately identify profits from their derivatives and nonderivatives activities. Moreover, it is difficult for most companies, including banks, to allocate costs to earnings in a way that allows them to correctly measure profits in a specific segment of their business, particularly when that business is intimately linked to other activities in which the company is engaged. Therefore, we cannot provide an industry analysis of whether derivatives activities are profitable or how important they are to overall bank profitability. However, the observation that bank derivative activity is highly skewed toward the largest banks leads us to infer that bankers at these institutions engage in derivative activity because it is or will become profitable, or because it will help the bank in other ways, such as by reducing interest rate risk or foreign exchange rate risk or by serving customer needs.

Publicly disclosed data sources such as the regulatory reports of financial condition (call reports) or SEC filings do not provide information that would enable us to calculate the profitability of bank derivatives activities. Revenues and expenses from derivatives do not appear as separate items on the call report. All of the reported income and expense categories, including the interest income, interest expense, and other noninterest income and expense categories, include many activities besides derivative product activity, so we cannot isolate derivative profitability. For example, within the noninterest income category, derivative activity can affect income from foreign exchange transactions and other noninterest income. Furthermore, regulators do not require banks to report operating expenses — items such as salaries, rent, and supplies — by product line.

Public reports filed by banks or their holding companies with the SEC — annual reports, 10-Ks, and other filings — sometimes provide information about derivative activity, but such disclosure is neither complete nor systematic, and it does not address derivative profitability.

Other potential sources of information on the profitability of bank derivatives activity include trade groups and investment analysts. Trade group surveys can be helpful, but we have found that they are not comprehensive and do not provide profitability information. Investment company analysts sometimes publish com-

Notional Amount of Derivative Contracts of the 25 Commercial Banks and Trust Companies with the Most Derivative Contracts
June 30, 1993
Dollars in millions

Rank	Bank Name	State	Total Assets	Total Derivatives	Total Futures & Forwards	Total Swaps	Total Options
1	Chemical Bank	NY	$110,375	$2,114,028	$1,241,918	$555,028	$317,082
2	Bankers Trust Company	NY	63,853	1,802,308	846,520	390,621	565,167
3	Citibank NA	NY	168,567	1,789,276	1,232,449	287,206	269,621
4	Morgan Guaranty Trust Company of NY	NY	103,490	1,537,466	548,185	592,063	397,218
5	Chase Manhattan Bank NA	NY	79,947	1,026,141	608,189	258,086	159,867
6	Bank of America NT&SA	CA	133,970	893,546	570,700	234,213	88,633
7	First National Bank of Chicago	IL	34,081	457,444	276,096	106,187	75,161
8	Continental Bank NA	IL	22,038	169,852	61,058	52,953	55,841
9	Republic National Bank of NY	NY	28,381	167,653	80,760	49,214	37,679
10	Bank of New York	NY	35,776	92,189	65,128	12,976	14,086
11	First National Bank of Boston	MA	25,723	70,673	49,119	9,937	11,617
12	Mitsui Trust Bank USA	NY	755	51,560	6,013	295	45,252
13	First Union National Bank NC	NC	20,745	45,956	13,347	25,626	25,626
14	NationsBank of NC NA	NC	24,549	34,908	9,692	23,650	1,567
15	Harris T&SB	IL	10,225	32,109	21,292	2,429	8,388
16	J P Morgan Delaware	DE	6,827	31,724	8,760	16,912	6,052
17	Mellon Bank NA	PA	28,553	31,189	15,785	12,668	2,736
18	National Westminster Bank USA	NY	16,457	30,580	7,467	11,100	12,013
19	Citibank Nevada NA	NV	4,524	27,523	2,945	3,929	20,649
20	Bankers Trust DE	DE	2,184	26,804	3,111	446	23,247
21	State Street Bank & Trust Company	MA	18,268	23,785	23,082	600	103
22	Seattle-First NB	WA	15,099	20,312	11,883	8,152	277
23	PNC Bank NA	PA	36,823	19,530	775	6,977	11,778
24	Bank One Columbus NA	OH	6,158	18,078	109	17,546	423
25	Marine Midland Bank NA	NY	16,123	15,773	6,975	8,798	0
	Top 25 Commercial Banks & Trust Companies			10,530,409	5,711,358	2,668,969	2,150,082
	Other 591 Commercial Banks & Trust Companies			418,661	106,409	226,455	85,775
	Total Notional Amount for All Banks & Trusts			10,949,070	5,817,767	2,895,424	2,235,857

Notes: Table includes data for FDIC-insured commercial banks and trust companies.
The breakout of total derivatives excludes $22 million in commodities contracts of banks with less than $100 million in assets.

Source: Call Report Schedule RC-L

Notional Amount of Futures and Forward Contracts of 25 Commercial Banks and Trust Companies with Most Futures and Forward Contracts
June 30, 1993
Dollars in millions

Rank	Bank Name	State	Total Assets	Total Futures & Forwards	Foreign Exchange Futures & Forwards	Interest Rate Futures & Forwards	Other Futures & Fowards
1	Chemical Bank	NY	$110,375	$1,241,918	$618,503	$623,270	$145
2	Citibank NA	NY	168,567	1,232,449	925,077	303,666	3,706
3	Bankers Trust Company	NY	63,853	846,520	422,856	420,353	3,311
4	Chase Manhattan Bank NA	NY	79,947	608,189	467,837	134,117	6,235
5	Bank of America NT&SA	CA	133,970	570,700	425,034	145,666	0
6	Morgan Guaranty Trust Company of NY	NY	103,490	548,185	317,553	214,509	16,123
7	First National Bank of Chicago	IL	34,081	276,096	190,878	85,099	119
8	Republic National Bank of NY	NY	28,381	80,760	61,291	14,704	4,765
9	Bank of New York	NY	35,776	65,128	46,980	18,100	48
10	Continental Bank NA	IL	22,038	61,058	21,752	39,119	187
11	First National Bank of Boston	MA	25,723	49,119	24,198	24,921	0
12	State Street Bank & Trust Company	MA	18,268	23,082	23,054	28	0
13	Harris T&SB	IL	10,225	21,292	20,099	1,193	0
14	Mellon Bank NA	PA	28,553	15,785	11,201	4,584	0
15	First Union National Bank NC	NC	20,745	13,347	3,667	9,680	0
16	Seattle-First National Bank	WA	15,099	11,883	332	11,551	0
17	NationsBank of NC NA	NC	24,549	9,692	5,846	3,846	0
18	Northern Trust Company	IL	13,115	8,924	8,519	405	0
19	J P Morgan Delaware	DE	6,827	8,760	0	8,760	0
20	IBJ Schroder Bank & Trust Company	NY	7,128	7,498	20	7,478	0
21	National Westminster Bank USA	NY	16,457	7,467	3,085	4,381	0
22	Boston Safe Deposit & Trust Company	MA	5,884	7,424	6,969	455	0
23	Marine Midland Bank NA	NY	16,123	6,975	0	6,975	0
24	Mitsui Trust Bank USA	NY	755	6,013	6,013	0	0
25	Wells Fargo Bank NA	CA	49,909	5,354	340	5,014	0
	Top 25 Commercial Banks & Trust Companies			5,733,617	3,611,104	2,087,874	34,640
	Other 240 Commercial Banks & Trust Companies			84,150	36,916	46,984	248
	Total Notional Amount for All Banks & Trust Companies			5,817,767	3,648,020	2,134,858	34,888

Note: Table includes data for FDIC-insured commercial banks and trust companies.
Source: Call Report Schedule RC-L

Notional Amount of Swap Contracts of 25 Commercial Banks and Trust Companies with Most Swap Contracts
June 30, 1993
Dollars in millions

Rank	Bank Name	State	Total Assets	Total Swaps	Interest Rate Swaps	Foreign Exchange Swaps	Other Swaps
1	Morgan Guaranty Trust Company of NY	NY	$103,490	$592,063	$482,700	$92,031	$17,332
2	Chemical Bank	NY	110,375	555,028	533,612	21,203	213
3	Bankers Trust Company	NY	63,853	390,621	333,637	55,556	1,428
4	Citibank NA	NY	168,567	287,206	247,940	35,965	3,301
5	Chase Manhattan Bank NA	NY	79,947	258,086	240,946	15,274	1,865
6	Bank of America NT&SA	CA	133,970	234,213	211,701	22,512	0
7	First National Bank of Chicago	IL	34,081	106,187	95,973	10,172	43
8	Continental Bank NA	IL	22,038	52,953	52,634	286	33
9	Republic National Bank of NY	NY	28,381	49,214	17,046	31,827	342
10	NationsBank of NC NA	NC	24,549	23,650	23,650	0	0
11	Bank One Columbus NA	OH	6,158	17,546	17,546	0	0
12	J P Morgan Delaware	DE	6,827	16,912	16,738	0	174
13	Bank of New York	NY	35,776	12,976	12,273	703	0
14	Mellon Bank NA	PA	28,553	12,668	12,589	78	0
15	National Westminster Bank USA	NY	16,457	11,100	11,098	0	2
16	First National Bank of Boston	MA	25,723	9,937	9,880	57	0
17	Marine Midland Bank NA	NY	16,123	8,798	8,718	80	0
18	Bank One Texas NA	TX	17,413	8,748	8,748	0	0
19	National City Bank	OH	8,834	8,412	8,412	0	0
20	First Interstate Bank CA	CA	19,526	8,331	8,331	0	0
21	Seattle-First National Bank	WA	15,099	8,152	8,152	0	0
22	American Express Centurion Bank	DE	10,397	7,778	7,778	0	0
23	CoreStates Bank NA	PA	15,492	7,292	7,292	0	0
24	First Union National Bank NC	NC	20,745	6,983	6,861	122	0
25	PNC Bank NA	PA	36,823	6,977	6,977	0	0
	Top 25 Commercial Banks & Trust Companies			2,701,831	2,391,231	285,866	24,733
	Other 454 Commercial Banks & Trust Companies			193,593	191,547	2,028	19
	Total Notional Amount for Banks & Trusts			2,895,424	2,582,778	287,894	24,752

Note: Table includes data for FDIC-insured commercial banks and trust companies.
Source: Call Report Schedule RC-L

Notional Amount of Option Contracts of 25 Commercial Banks and Trust Companies with Most Option Contracts
June 30, 1993
Dollars in millions

Rank	Bank Name	State	Total Assets	Total Options	Interest Rate Options	Foreign Exchange Options	Other Options
1	Bankers Trust Company	NY	$63,853	$565,167	$445,634	$95,582	$23,951
2	Morgan Guaranty Trust Company of NY	NY	103,490	397,218	261,606	109,307	26,305
3	Chemical Bank	NY	110,375	317,082	263,081	47,205	6,796
4	Citibank NA	NY	168,567	269,621	167,607	90,743	11,271
5	Chase Manhattan Bank NA	NY	79,947	159,867	81,755	72,324	5,788
6	Bank of America NT&SA	CA	133,970	88,633	68,042	20,591	0
7	First National Bank of Chicago	IL	34,081	75,161	45,412	29,645	103
8	Continental Bank NA	IL	22,038	55,841	40,387	13,920	1,534
9	Mitsui Trust Bank USA	NY	755	45,252	0	45,252	0
10	Republic National Bank of NY	NY	28,381	37,679	13,970	22,138	1,571
11	First Union National Bank NC	NC	20,745	25,626	25,294	332	0
12	Bankers Trust DE	DE	2,184	23,247	23,247	0	0
13	Citibank Nevada NA	NV	4,524	20,649	20,649	0	0
14	Bank of New York	NY	35,776	14,086	11,382	2,704	0
15	National Westminster Bank USA	NY	16,457	12,013	11,992	19	2
16	PNC Bank NA	PA	36,823	11,778	11,768	10	0
17	First National Bank of Boston	MA	25,723	11,617	9,193	2,425	0
18	Harris T&SB	IL	10,225	8,388	3,622	4,766	0
19	Signet Bank VA	VA	9,160	8,131	8,129	2	0
20	First Union National Bank FL	FL	26,197	7,300	7,300	0	0
21	Wells Fargo Bank NA	CA	49,909	7,045	7,017	28	0
22	Citibank South Dakota NA	SD	5,776	6,201	6,201	0	0
23	J P Morgan Delaware	DE	6,827	6,052	6,052	0	0
24	Huntington National Bank	OH	11,710	4,190	4,190	0	0
25	Shawmut Bank NA	MA	13,410	3,818	3,816	0	2
	Top 25 Commercial Banks & Trust Companies			2,181,661	1,547,347	556,991	77,323
	Other 154 Commercial Banks & Trust Companies			54,196	50,564	3,587	45
	Total Notional Amount for All Banks & Trusts			2,235,857	1,597,911	560,578	77,368

Note: Table includes data for FDIC-insured commercial banks and trust companies.
Source: Call Report Schedule RC-L

Notional Amount of Derivative Contracts of 25
National Banks with Most Derivative Contracts
June 30, 1993
Dollars in millions

Rank	*Bank Name*	*State*	*Assets*	*Tpta; Derivatives*	*Total Futures & Forwards*	*Total Swaps*	*Total Options*
1	Citibank NA	NY	$168,567	$1,789,276	$1,232,449	$287,206	$269,621
2	Chase Manhattan Bank NA	NY	79,947	1,026,141	608,189	258,086	159,867
3	Bank of America NT&SA	CA	133,970	893,546	570,700	234,213	88,633
4	First National Bank of Chicago	IL	34,081	457,444	276,096	106,187	75,161
5	Continental Bank NA	IL	22,038	169,852	61,058	52,953	55,841
6	Republic National Bank of NY	NY	28,381	167,653	80,760	49,214	37,679
7	First National Bank of Boston	MA	25,723	70,673	49.119	9,937	11,617
8	First Union National Bank NC	NC	20,745	45,956	13,347	6,983	25,626
9	NationsBank of NC NA	NC	24,549	34,908	9,692	23,650	1,567
10	Mellon Bank NA	PA	28,553	31,189	15,785	12,668	2,736
11	National Westminster Bank USA	NY	16,457	30,580	7,467	11,100	12,013
12	Citibank Nevada NA	NV	4,524	27,523	2,945	3,929	20,649
13	Seattle-First National Bank	WA	15,099	20,312	11,883	8,152	277
14	PNC Bank NA	PA	36,823	19,530	775	6,977	11.778
15	Bank One Columbus NA	OH	6,158	18,078	109	17,546	423
16	Marine Midland Bank NA	NY	16,123	15,773	6,975	8,798	0
17	Wells Fargo Bank NA	CA	49,909	14,968	5,354	2,569	7,045
18	First Union National Bank FL	FL	26,197	13,814	2,625	3,889	7,300
19	Huntington National Bank	OH	11,710	12,477	2,372	5,915	4,190
20	Citibank South Dakota NA	SD	5,776	11,858	2,516	3,140	6,201
21	National City Bank	OH	8,834	10,865	976	8,412	1,477
22	CoreStates Bank NA	PA	15,492	10,482	2,399	7,292	791
23	Texas Cmrc Bank NA	TX	12,430	10,338	2,383	6,007	1,948
24	Bank One Texas NA	TX	17,413	8,963	15	8,748	200
25	Shawmut Bank NA	MA	13,410	8,043	3,771	455	3,818
	Top 25 National Banks			4,920,243	2,969,760	1,144,026	806,457
	Other 303 National Banks			181,889	45,311	109,448	27,129
	Total Notional Amount for All National Banks			5,102,132	3,015,071	1,253,474	833,586

Note: Table includes data for nationally-chartered FDIC-insured commercial banks and trust companies.
Source: Call Report Schedule RC-L

Notional Amount of Futures and Forward Contracts of 25 National Banks with Most Futures and Forward Contracts
June 30, 1993
Dollars in millions

Rank	*Bank Name*	*State*	*Assets*	*Total Futures & Forwards*	*Foreign Exchange Futures & Forwards*	*Interest Rate Futures & Fowards*	*Other Futures & Forwards*
1	Citibank NA	NY	$168,567	$1,232,449	$925,077	$303,666	$3,706
2	Chase Manhattan Bank NA	NY	79,947	608,189	467,837	134,117	6,235
3	Bank of American NT&SA	CA	133,970	570,700	425,034	145,666	0
4	First National Bank of Chicago	IL	34,081	276,096	190,878	85,099	119
5	Republic National Bank of NY	NY	28,381	80,760	61,291	14,704	4,765
6	Continental Bank NA	IL	22,038	61,058	21,752	39,119	187
7	First National Bank of Boston	MA	25,723	49,119	24,198	24,921	0
8	Mellon Bank NA	PA	28,553	15,785	11,201	4,584	0
9	First Union National Bank NC	NC	20,745	13,347	3,667	9,680	0
10	Seattle-First National Bank	WA	15,099	11,883	332	11,551	0
11	NationsBank of NC NA	NC	24,549	9,692	5,846	3,846	0
12	National Westminster Bank USA	NY	16,457	7,467	3,085	4,381	0
13	Marine Midland Bank NA	NY	16,123	6,975	0	6,975	0
14	Wells Fargo Bank NA	CA	49,909	5,354	340	5,014	0
15	Shawmut Bank Connecticut NA	CT	12,761	4,637	4,622	15	0
16	Shawmut Bank NA	MA	13,410	3,771	3,655	116	0
17	First Bank NA	MN	13,380	3,422	1,819	1,604	0
18	NationsBank of TX NA	TX	36,911	3,354	1,878	1,476	0
19	Wachovia Bank of NC NA	NC	18,625	3,222	1,095	2,127	0
20	Fleet Bank of MA NA	MA	7,699	2,984	2,383	601	0
21	Citibank Nevada NA	NV	4,524	2,945	0	2,945	0
22	First Security Bank Idaho NA	ID	3,228	2,712	0	2,712	0
23	First Union National Bank	FL	26,197	2,625	0	2,625	0
24	Citibank South Dakota NA	SD	5,776	2,516	0	2,516	0
25	NBD Bank NA	MI	24,400	2,466	2,309	157	0
	Top 25 National Banks			2,983,529	2,158,300	810,216	15,013
	Other 125 National Banks			31,542	10,644	20,739	159
	Total Notional Amount for All National Banks			3,015,071	2,168,944	830,955	15,172

Note: Table includes data for nationally-chartered FDIC-insured commercial banks and trust companies.
Source: Call Report Schedule RC-L

Notional Amount of Swap Contracts of 25 National Banks with Most Swap Contracts June 30, 1993 Dollars in millions

Rank	Bank Name	State	Assets	Total Swaps	Interest Rate Swaps	Foreign Exchange Swaps	Other Swaps
1	Citibank NA	NY	$168,567	$287,206	$247,940	$35,965	$3,301
2	Chase Manhattan Bank NA	NY	79,947	258,086	240,946	15,274	1,865
3	Bank of America NT&SA	CA	133,970	234,213	211,701	22,512	0
4	First National Bank of Chicago	IL	34,081	106,187	95,973	10,172	43
5	Continental Bank of NA	IL	22,038	52,953	52,634	286	33
6	Republic National Bank of NY	NY	28,381	49,214	17,046	31,827	342
7	NationsBank of NC NA	NC	24,549	23,650	23,650	0	0
8	Bank One Columbus NA	OH	6,158	17,546	17,546	0	0
9	Mellon Bank NA	PA	28,553	12,668	12,589	78	0
10	National Westminster Bank USA	NY	16,457	11,100	11,098	0	2
11	First National Bank of Boston	MA	25,723	9,937	9,880	57	0
12	Marine Midland Bank NA	NY	16,123	8,798	8,718	80	0
13	Bank One Texas NA	TX	17,413	8,748	8,748	0	0
14	National City Bank	OH	8,834	8,412	8,412	0	0
15	Seattle-First National Bank	WA	15,099	8,152	8,152	0	0
16	CoreStates Bank NA	PA	15,492	7,292	7,292	0	0
17	First Union National Bank NC	NC	20,745	6,983	6,861	122	0
18	PNC Bank NA	PA	36,823	6,977	6,977	0	0
19	FCC National Bank	DE	4,040	6,707	6,707	0	0
20	Society National Bank	OH	18,528	6,417	6,417	0	0
21	Texas Commerce Bank NA	TX	12,430	6,007	6,002	0	5
22	Huntington National Bank	OH	11,710	5,915	5,915	0	0
23	Fleet National Bank	RI	7,628	4,970	4,970	0	0
24	Bank One Milwaukee NA	WI	3,280	4,373	4,373	0	0
25	Citibank Nevada NA	NV	4,524	3,929	3,929	0	0
	Top 25 National Banks			1,156,440	1,034,476	116,374	5,591
	Other 242 National Banks			97,034	96,793	228	13
	Total Notional Amount for All National Banks			1,253,474	1,131,269	116,602	5,604

Note: Table includes data for nationally-chartered FDIC-insured commercial banks and trust companies.
Source: Call Report Schedule RC-L

Notional Amount of Option Contracts of 25
National Banks with Most Option Contracts
June 30, 1993
Dollars in millions

Rank	Bank Name	State	Assets	Total Options	Interest Rate Options	Foreign Exchange Options	Other Options
1	Citibank NA	NY	$168,567	$269,621	$167,607	$90,743	$11,271
2	Chase Manhattan Bank NA	NY	79,947	159,867	81,755	72,324	5,788
3	Bank of America NT&SA	CA	133,970	88,633	68,042	20,591	0
4	First National Bank of Chicago	IL	34,081	75,161	45,412	29,645	103
5	Continental Bank NA	IL	22,038	55,841	40,387	13,920	1,534
6	Republic National Bank of NY	NY	28,381	37,679	13,970	22,138	1,571
7	First Union National Bank NC	MC	20,745	25,626	25,294	332	0
8	Citibank Nevada NA	NV	4,524	20,649	20,649	0	0
9	National Westminster Bank USA	NY	16,457	12,013	11,992	19	2
10	PNC Bank NA	PA	36,823	11,778	11,768	10	0
11	First National Bank of Boston	MA	25,723	11,617	9,193	2,425	0
12	First Union National Bank FL	FL	26,197	7,300	7,300	0	0
13	Wells Fargo Bank NA	CA	49,909	7,045	7,017	28	0
14	Citibank South Dakota NA	SD	5,776	6,201	6,201	0	0
15	Huntington National Bank	OH	11,710	4,190	4,190	0	0
16	Shawmut Bank NA	MA	13,410	3,818	3,816	0	2
17	Maryland National Bank	MD	11,758	3,509	3,500	9	0
18	Mellon Bank NA	PA	28,553	2,736	1,786	951	0
19	NationsBank of GA NA	GA	14,936	2,142	1,990	152	0
20	United States National Bank	OR	10,809	2,014	2,014	0	0
21	Texas Commerce Bank NA	TX	12,430	1,948	1,941	6	0
22	Shawmut Bank Connecticut NA	CT	12,761	1,889	1,888	0	2
23	First Security Bank of Utah NA	UT	4,480	1,684	1,684	0	0
24	NationsBank of NC NA	NC	24,549	1,567	914	653	0
25	National City Bank	OH	8,834	1,477	1,471	6	0
	Top 25 National Banks			816,003	541,779	253,951	20,273
	Other 78 National Banks			17,583	16,640	910	33
	Total Notional Amount for All National Banks			833,586	558,419	254,861	20,306

Note: Table includes data for nationally-chartered FDIC-insured commercial banks and trust companies.
Source: Call Report Schedule RC-L

pany-specific derivative information, either obtained from the company's management or inferred from analysis of financial statements. Analysts' reports contain information for certain individual banks, but they do not address the profitability of derivatives activities overall.

C1. What are the pros and cons related to the concentration of bank derivative activities in a handful of large money center banks?

Large institutions are more likely than smaller institutions to have the resources that are necessary to implement sophisticated systems for managing the complexities that are often inherent in derivatives portfolios. Large institutions are also more likely to hold large capital bases to absorb potential losses. Market participants appear to favor the existing degree of concentration, which is largely driven by dealer activities, because of their need to have strong, highly rated, and sophisticated counterparties. Moreover, the concentration of derivatives activities in a few large institutions facilitates the regulatory supervision of these activities.

Some observers have argued that the concentration of derivatives activity in only a small number of institutions enables those firms to extract abnormally large profits from derivatives transactions, at the expense of their customers. There are, however, several large U.S. nonbank financial institutions that compete with banks in derivatives markets. There are also a large number of foreign bank and nonbank financial institutions, including major banks and securities firms in the United Kingdom, Japan, France, and Switzerland, participating in those markets. Overall, we believe that there are sufficient numbers of market players to ensure competitive pricing.

C2. For each of the 10 largest bank derivatives dealers, indicate the credit exposure related to derivatives as a percentage of the bank's capital.

The accompanying table provides data, based on bank call reports, on the credit exposure and capital of the 10 commercial banks that are derivatives dealers. The table is based on the risk-based capital definition of the credit equivalent amount of derivatives activities. This calculation includes the amount of money it would cost the bank to replace its contracts and an add-on estimate of potential future credit exposure.

These estimates differ significantly from banks' internal estimates of their credit exposure because they do not take into account some contractual provisions that reduce credit risk exposure. For example, these estimates do not consider the presence of collateral, which may eliminate the credit risk. The estimates also only reflect the netting of contracts with a single counterparty where netting by novation is possible. A bank's overall net position to a single counterparty may be significantly less than the exposure reflected in these estimates. In evaluating these data, therefore, it is important to note that the credit exposure calculation represents a "worst case" scenario because it is based on the assumption that all counterparties would default on the reported contracts.

Finally, OCC's examiners in dealer banks report that, thus far, the credit loss experience from derivatives activities compares quite favorably with the loss experience associated with traditional lending activities. In all likelihood, the lower loss rate reflects at least in part the emphasis derivatives market participants place on the creditworthiness of counterparties.

Credit Equivalent Exposure of the 10 Largest Bank Derivatives Dealers
June 30, 1993
Dollars in Millions

Rank	*Bank Name*	*State*	*Total Assets*	*Total Derivatives*	*Replacement Cost Credit*	*Estimate Potential Credit Exposure*	*Total Credit Equivalent Exposure*	*Credit Exposure to Capital Ratio*
1	Chemical Bank	NY	$110,375	$2,114,028	$23,947	$ 7,938	$31,885	268%
2	Bankers Trust Company	NY	63,853	1,802,308	21,784	7,735	29,519	571
3	Citibank NA	NY	168,567	1,789,276	26,466	11,684	38,150	230
4	Morgan Guaranty Trust Company of NY	NY	103,490	1,537,466	27,565	10,367	37,931	458
5	Chase Manhattan Bank NA	NY	79,947	1,026,141	16,679	6,362	23,041	269
6	Bank of America NT&SA	CA	133,970	893,546	16,253	5,468	21,721	146
7	First National Bank of Chicago	IL	34,081	457,444	7,548	2,596	10,144	269
8	Continental Bank NA	IL	22,038	169,852	2,050	415	2,465	91
9	Republic National Bank of NY	NY	28,381	167,653	1,892	848	2,740	104
10	Bank of New York	NY	35,776	92,189	1,214	490	1,703	41

Notes: Replacement cost credit exposure and estimated potential credit exposure excludes exchange-traded contracts with daily margin requirements, individual contracts netted bilaterally through novation, and foreign exchange contracts with original maturities of 14 days or less Potential future credit exposures are estimated using the calculations in the OCC's risk-based capital standards.
Source: Call Report Schedules RC-L & RC-R

C3. Does your agency have defined criteria that must be met before a bank can offer derivative products? Do banks need to notify your agency prior to becoming a dealer in derivative products?

Under current regulations, national banks are not required to notify the OCC prior to becoming a dealer in derivative products. Rather, our examiners evaluate a bank's entrance into the market as a derivatives dealer through the normal supervisory process. Of the limited number of national banks involved in derivative products, only a few of the larger banks function as derivatives dealers. The OCC's ongoing supervision of the larger national banks ensures that none of these banks enter the derivatives market in a dealer capacity without prior discussions with representatives of the OCC.

The criteria used by the OCC to decide whether a bank can become a dealer in derivative products include the bank's management ability and degree of capital adequacy. The OCC evaluates these two factors as they relate to the various risks to which an institution is exposed as a result of engaging in derivative transactions.

The OCC evaluates management ability through an assessment of risk governance by senior management and the board. Senior management and the board should review, where applicable, descriptions of the relevant financial products, markets, and business strategies; an analysis of the risks that may arise from the activities; the procedures for monitoring and controlling those risks; the relevant accounting guidelines; and a legal opinion as to whether the activities are permissible. Senior management and the board must also ensure that proper controls such as operating procedures and audit coverage are in place before the bank initiates derivatives transactions.

D1. How does your agency define and identify speculation? Are there any rules or regulations involving bank speculation with derivative products?

A speculator is a market participant who, by establishing an open position in a market or markets, seeks to profit from market movements. Speculators provide an important source of liquidity to financial markets by accommodating other market participants who do not choose to take a view on market movements.

We expect banks to monitor and limit the degree to which they take unhedged positions, and some banks establish special units within the bank to conduct such activities. OCC examiners pay special attention to open positions.

As the response to questions D2 and D3 describes, for the six national banks that are dealers in derivative products, approximately 10 percent of their derivatives activities represent transactions that are entered into for the bank's own risk management. Risk management activities include derivative transactions entered into for hedging purposes. In all cases, derivatives activities must be conducted in a manner that is consistent with safe and sound banking practices.

OCC does not have policies that specifically address bank speculation using derivative products. However, OCC policy requires all national banks whose activities involve risk-taking to adequately measure and monitor their risk, to control their risk by setting and adhering to formal risk limits, and to hold adequate capital against their risk exposures. The forthcoming banking circular on risk management of financial derivatives will make clear the need for all national banks engaged in derivatives activities to have adequate systems for measuring, monitoring, and controlling the risks from those activities. Furthermore, the circular will state that banks whose derivatives activities involve active position-taking should have adequate risk measurement systems that facilitate scenario testing and enable management to assess the potential impact of various changes in market factors on the value of earnings and capital.

D2. What percentage of bank derivative transactions are related to a) market-making functions? b) speculation? c) risk arbitrage?

D3. To what extent do banks enter into derivatives contracts to hedge or square positions on their own balance sheets?

Data of this type are not reported in any centralized location and are only available through the examination process. Therefore, we can only provide data about the banks for which we have supervisory responsibility.

For the six national banks that are dealers in derivative products, approximately 90 percent of their derivatives activities are entered into as part of the banks' market-making functions, and approximately 10 percent of those activities represent transactions that are entered into for the banks' own risk management.

The aggregate breakout of activities by purpose masks a great deal of variation. The breakout varies significantly across institutions, within an institution across products, and within and across institutions over time. Moreover, we cannot use these data to determine the extent to which the transactions that banks enter into for risk management purposes are related to market-making functions, speculation, or risk arbitrage. In general, banks enter into derivatives activities to manage their risk profiles.

D4. What percentage of bank derivatives transactions are entered into with a) other market makers? b) financial versus nonfinancial end-users? c) existing bank customers? d) for the bank's proprietary purposes?

Data of this type are not reported in any centralized location and are available only through bank examiners. Therefore, the OCC can only provide data about the banks for which we have supervisory responsibility.

As stated in the response to questions D2 and D3, for the six national banks that are dealers in derivative products, approximately 90 percent of the derivatives activities are entered into as part of the banks' market-making functions. Approximately 10 percent of those activities are for the banks' own risk management, which includes both position-taking (e.g., proprietary trading) and risk reduction activities. Approximately 55 percent of their counterparties are other market makers. The other 45 percent of counterparties are end-users. Of those end-users, 47 percent are financial end-users and 53 percent are non-financial end-users. All of those end-users are existing bank customers.

This aggregate breakout of derivatives activities by counterparties masks a great deal of variation. The types of counterparties vary significantly across institutions, within an institution across products, and within and across institutions over time.

E1. What are the pros and cons of requiring banks to establish separately capitalized subsidiaries to engage in derivatives activities?

A number of banks have communicated to us what they believe would be the advantages to establishing separately capitalized subsidiaries to engage in derivatives activities. The derivatives markets exert substantial pressure on participants to be highly creditworthy, and bankers have argued that a separately capitalized subsidiary that garnered a higher credit rating than the parent bank could enable them to increase the credit quality of their derivatives transactions. A higher rating could also result in reduced funding and transaction costs. As a result, the investment of capital in an operating subsidiary could be more efficient than a comparable investment in the bank, and could generate improved revenue streams for the parent as well as better product and pricing alternatives for the bank's customers.

The OCC does not believe, however, that all national banks should be required to establish separately capitalized subsidiaries to engage in derivatives activities. National banks can effectively manage the risks involved in derivative activities in the bank itself if proper risk management systems are in place.

Moreover, all banks engaging in derivatives activities already face several powerful constraints that encourage risk management. As noted above, the derivatives markets exert powerful discipline on participants to be highly creditworthy, either by maintaining high credit ratings or by dedicating high-quality collateral to each transaction. The depositor preference provisions of the Omnibus Budget Reconciliation Act of 1993 give further incentive to bank participants in derivatives markets to be creditworthy. Because the act subordinates all the bank's nondeposit creditors to the deposit insurance fund in the event of a bank failure, market participants are likely to enter into transactions with a bank counterparty only where the threat of the bank's failure is minimal. Additionally, the OCC's policies require banks to have limits regarding collateral for derivatives transactions, in order to protect the liquidity of the bank. The OCC also requires banks to have strong policies and procedures to measure, monitor, and control their risks associated with their risk-taking activities, including their derivative activities.

Requiring banks to establish separately capitalized subsidiaries to conduct derivatives activities would impose costs that could be high enough to prevent certain banks, particularly small end-user banks, from engaging in derivatives activities that would enable them to enhance their safety and soundness by more effectively managing their risk.

E2. In providing derivatives products, to what extent does deposit insurance provide banks with an advantage or disadvantage over nonbank competitors?

Deposit insurance does not provide banks with a clear advantage over nonbank competitors in the derivatives market. Although the existence of deposit insurance enables banks to attract funds, sometimes more cheaply than their competitors, it also imposes considerable costs. For example, banks pay insurance premiums on their insured deposits, and face a greater degree of regulation and supervision as compared to many of their competitors. Furthermore, deposit insurance does not protect parties to a derivatives transaction from risk of loss, and thus does not provide banks with any direct advantage over nonbank competitors in that regard.

The enactment of the depositor preference provision of the Omnibus Budget Reconciliation Act of 1993 appears to have reduced any indirect competitive advantage that banks may have had in the past by transferring more of the cost of bank failures to banks' creditors and counterparties. This risk transfer increases the risk premium banks pay to uninsured creditors, thereby altering the pricing of derivatives by

the banks' counterparties and creating the potential for an increase in both the spread and collateralization required of banks.

* * *

Capital Treatments for Derivatives

Current Risk-Based Capital Treatment

The current risk-based capital guidelines include an explicit capital charge for the credit risk (counterparty risk) exposure of over-the-counter derivative products.[11] This capital charge applies to interest rate and foreign exchange (FX) swaps, forward rate agreements (FRAs), and purchased interest rate and FX options. The treatment has been extended to apply to newer derivative products, including commodity and equity index swaps.

The capital charge for these derivative instruments is determined by a two-step process: (1) the calculation of the "credit risk equivalent" (CRE) amount of the contract and (2) the assignment of the CRE amount to the proper risk-weighting category, based on the counterparty to the contract. For each applicable contract, a bank first calculates the CRE of that contract:

CRE = Mark-to-Market Exposure + Potential Risk Add-On

The Mark-to-Market Exposure (MTM) is the present value of the net cash flows ("replacement cost") owed to the bank by the counterparty.

The Potential Risk Add-On is an additional buffer to account for a possible increase in the current MTM. It provides an additional cushion in case, over the remaining life of the contract, interest rates (or exchange rates, or whatever the price index is) move further in the direction that increases the MTM value of the contract, thereby increasing the bank's counterparty exposure.

The add-on is calculated as the product of the "notional principal" times a "factor." The notional principal is the quoted basis that underlies the cash flows. The following table shows the Potential Risk Add-On Factors:

Factors for the Potential Risk Add-on Calculation

Remaining Maturity	Interest Rate Contracts	Exchange Rate Contracts
1 year and under	0.0%	1.0%
Over 1 year	0.5%	5.0%

[11] *Instruments traded on an exchange that requires the daily payment of any variations in the market value of the contract through a cash margin are exempted from this capital charge.*

For the recent innovations in swap contracts, such as equity index swaps and commodity swaps, the FX add-ons are applied.

The resulting CRE amount is then risk-weighted by the appropriate factor, based on the identity of the counterparty. However, the maximum risk weight assigned to an interest rate or exchange rate contract is 50 percent. The risk-weighted amount is then subject to the 8 percent risk-based capital requirement.

Basle Committee Initiatives

The Basle Committee on Bank Supervision's consultative papers (released in April 1993) propose to expand the existing capital treatment of derivatives to include a capital charge for: (a) the market risk of derivative products that are part of a bank's trading activities, and (b) the foreign exchange risk in a bank's net open foreign currency position, including derivative instruments such as foreign currency options, futures, and swaps. The proposal for foreign exchange risk would also apply to positions in precious metals. These proposals would be in addition to the current risk-based capital treatment for counterparty risk, and hence, would represent an *increase* in the capital requirements for derivatives. However, to the extent that more netting would be allowed, it would *reduce* any prospective capital charges. In addition, the market risk proposal would not apply to derivatives held outside of banks' trading portfolios.

Market Risk Proposal

This proposal would incorporate into a bank's capital requirement, the market risk of equity and debt derivatives that are part of a bank's trading activities. The capital charge for market risk would have two components: a charge for specific risk (risks associated with the issuer of the security) and one for general market risk (the risk of adverse market movements).[12]

The charge for specific risk would be calculated on an instrument-by-instrument basis. No "offsetting" or hedging of this risk would be permitted in computing the capital charge. This charge would apply to both long and short positions and, for derivatives, would be *in addition to* the existing charge for counterparty risk. However, only those derivatives where the underlying instrument relates to a specific nongovernment issuer (such as a future or option on a specific corporate debt security) would be subject to a specific risk charge.

[12] *Although the proposal addresses both debt and equity securities and derivatives, only the treatment for debt-related instruments are discussed here, because these are the most prevalent type of instrument among US banks.*

The charge for general market risk would be calculated on a portfolio basis, with a partial recognition of hedging arrangements. All long and short positions would first be slotted into a maturity ladder composed of 13 time bands, based on the instrument's maturity or repricing characteristics. Positions in each time band would be weighted by a price-sensitivity factor.[13] The weighted long and short positions would then be netted, first within each time band and then across time bands. This would result in a residual net long or short position. However, full netting or hedging would not be allowed, either within or across time bands. The limited recognition of hedging would be accomplished through a series of "disallowance" factors that would be applied to one side of each matched or "netted" amount. The resulting capital charge would be the sum of the net residual position plus the "disallowed" amounts.

Off-balance sheet interest rate contracts would be included in the slotting and calculation procedure by converting these derivatives into representative security positions — the underlying cash positions of the derivative contract. Each contract would be reported with two entries: a long and a short position. Futures, forwards, and options would have one entry reported in the time band corresponding to the settlement date of the contract plus the maturity of the underlying instrument, and an offsetting entry in the time band that corresponds to the settlement date of the contract. For example, a bank that buys a 5-year Treasury note futures contract for delivery in two months would record this position as a long position in the 5-7 year time band (the bank is long or "owns" the 5-year note) and a short position in the 1-3 month time band (to represent the financing cost if the bank purchases the note).

The entries for an interest swap would reflect the notional principal amount of the swap and would be reported in the time bands that correspond to the floating-rate repricing date and the residual maturity of the swap. For example, a two-year interest rate swap, where the bank receives a floating rate quarterly and pays the fixed rate, would be treated as a long position (positive, because the bank is receiving the cash flow) in the 1- to 3-month time band and a short position (negative, because the bank is paying the cash flow) in the 1- to 2-year time band.

The treatment of options is somewhat more complex due to their asymmetrical risk profiles. The Basle Committee's paper proposes a basic methodology based on delta-equivalent values and seeks comment on several alternative methodologies. Under the delta approach,[14] an option would be converted to its delta-weighted equivalent amount and then slotted into the maturity ladder, using the two-entry approach described for futures. Unlike other derivative instruments, higher disallowance factors would be applied to options positions. The effect of these higher disallowance factors would be a higher capital charge for options and positions that are hedged by options.

Foreign Exchange Proposal

This proposal would impose an additional capital requirement on a bank's net open foreign currency and precious metal positions. A bank would choose either a "shorthand" or "simulation" method to calculate its capital requirement. The shorthand method would apply an 8 percent capital charge to the total of the net short position in any currency, including that of the reporting currency, plus the total of each net position (short or long) in any precious metal. Under the simulation method, the capital charge would equal the 95th percentile of the hypothetical losses that would have occurred had the bank held its current foreign exchange and precious metal positions over the past 5 years, *plus* 3 percent of the overall net open position as measured by the shorthand method.

Derivative products would be included in the calculation of the bank's net open positions. For banks that actively trade FX options, the options would be converted to their delta-equivalent amounts.

FDICIA Section 305 Proposal

FDICIA section 305 requires each banking agency to revise its risk-based capital standards to ensure that those standards take adequate account of interest rate risk (IRR). The OCC, in conjunction with the FDIC and FRB, published a Notice of Proposed Rulemaking to implement this portion of section 305 on September 14, 1993. The proposed rulemaking would establish procedures for measuring banks' IRR exposures and determining the amount of capital that may be needed for IRR. Interest rate risk would be measured as the change in the net economic value of a bank for a specified change in interest rates. The change in an institution's net economic value would be defined as the change in the present value of its assets minus the change in the present value of its liabilities plus or

[13] *These factors would cover approximately two standard deviations of the historical one-month volatility of interest rates in most major markets.*

[14] *The delta of an option represents its change in value relative to the change in the value of the underlying instrument. An option's delta times its notional amount equals the option's delta-equivalent value*

minus the change in the present value of its off-balance-sheet contracts.

A bank's exposure to IRR would be measured either by the bank's internal risk measurement system, if approved as adequate by the OCC in the examination process, or by a basic supervisory model. The methodology used in the supervisory model is similar to the methodology proposed by the Basle Committee to measure the general market risk in trading portfolios: a maturity ladder framework with price sensitivity weights. The treatment of derivative products would generally mirror the treatment outlined above for the Basle Committee's Market Risk Proposal.

The proposed rulemaking solicits comment on two alternative methods for determining the amount of capital a bank may need to account for IRR. One method, the Minimum Capital Standard approach, would impose an explicit minimum capital charge based on the amount of measured IRR exposure in excess of a supervisory threshold. The other method, the Risk Assessment approach, would not introduce an explicit minimum capital charge into the risk-based capital standard, but rather, would assess the need for capital case by case, considering both the level of measured exposure and qualitative factors. These factors would include the quality of a bank's IRR management, internal controls, and the overall financial condition of the bank, including its earnings capacity, capital base, and the level of other risks that might impair future earnings or capital.

Statement of Eugene A. Ludwig, Comptroller of the Currency, before the Senate Committee on Banking, Housing, and Urban Affairs, on interstate branching, Washington, DC, November 2, 1993

Mr. Chairman and members of the committee, I appreciate this opportunity to testify on interstate branching. Markets for financial services have no natural geographic boundaries. Yet, banking firms are, for the most part, required to do business through separately chartered subsidiary banks in each state in which they operate. This inconveniences customers who bank in more than one state and drives up the cost of banking services.

Permitting banks to operate interstate branching networks should help improve the safety and soundness of the banking system, and it should help banking companies provide more convenient and cost-effective service to their customers.

Interstate Banking Today

The authority of banking firms to provide services across state borders is currently limited by two provisions of federal law:

- The Douglas Amendment to the Bank Holding Company Act permits banking firms to acquire out-of-state banks only if the acquisition is explicitly authorized by the state in which the target bank is located. Every state has enacted legislation permitting some degree of interstate banking. But interstate banking under the Douglas Amendment must be conducted through separately incorporated subsidiaries of a bank holding company.

- Direct interstate branching is more severely restricted. The McFadden Act virtually prohibits interstate branching by national banks and by state banks that are members of the Federal Reserve System. Most states have enacted similar restrictions that apply to state-chartered banks that are not Federal Reserve members.

The constraints on interstate banking that these statutes provide are in many ways more nominal than real. The number of banking companies with multistate operations increased more than tenfold between 1980 and 1992. The number of banks they operated jumped from 279 to 1,277, and the volume of banking assets in those multistate companies rose from $85 billion to over $2.2 trillion, nearly 64 percent of all U.S. commercial banking assets.

The banking map of the U.S. today tells a similar story. Every state in the nation has acted to permit entry by out-of-state banking companies, in one form or another. Although most states continue to place some restrictions on interstate banking,[1] those restrictions are not, for the most part, geographical in nature. In fact, whatever limitations they may impose, 35 states permit entry by banking companies from any other state either on a reciprocal or unrestricted basis. The remaining 15 states and the District of Columbia permit entry, all but Hawaii on a reciprocal basis, by banking companies headquartered in nearby states.

The willingness of states to open their borders to out-of-state banking and the consequent growth in multistate banking companies has taken place against a background of activity at the federal level. To facilitate the resolution of failed banks, Congress, beginning with the Garn-St Germain Depository Institutions Act of 1982, permitted holding companies to acquire closed banks with assets in excess of $500 million on an interstate basis notwithstanding state law. Congress expanded this authority in the Competitive Equality Banking Act of 1987 to include, among other things, the emergency acquisition by out-of-state banking companies of banks that are in danger of closing and that have assets in excess of $500 million. Congress has also authorized the Resolution Trust Corporation to override state laws, including branching laws, to facilitate the acquisition of failed thrifts by banks.

In addition, federal thrifts may engage in unrestricted interstate branching, subject to certain exceptions, in accordance with rules that the Office of Thrift Supervision issued in May 1992.

Whatever stimulus for change federal activity may have provided, market pressures were clearly at work. For many years, national banks have been establishing loan production offices where they could not establish branches, in order to serve customers operating in more than one state. National banks also may permit

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[1] *Restrictions include barring* de novo *entry, limiting acquisitions to failed banks, requiring that acquired banks be older than some specified number of years, and requiring that a specified percentage of the assets of the acquiring company be located in a specific region. Hawaii, for example, limits out-of-state entry to banks headquartered in selected U.S. territories and to acquisitions of failed or failing banks by banking companies located in the twelfth Federal Reserve District, but only after all Hawaii banks have turned down the opportunity to buy the failing bank.*

customers to have access to withdrawal services, and in some cases deposit services, without geographic limitation by joining interstate ATM networks.

More recently, various forms of home banking, electronic banking, point-of-sale terminals, banking by mail, and use of third party messenger services have also enabled banks to expand the geographic range of their services consistent with current law. Some banks are considering providing such accommodation services on an interstate basis.

This erosion of artificial barriers to interstate banking is a natural outgrowth of improvements in information technology. As bank products have become more standardized and information processing technology has become more powerful and affordable, it has become easier for banks to provide services over increasingly large geographic areas. Bank customers have also become more mobile. Rather than conducting all of their banking business at a single branch, they now demand access to banking services wherever they are, often in places other than their home state.

While interstate banking has grown steadily and broadly over the last decade, interstate branching — the opportunity to have branches, rather than subsidiary banks — in multiple states has lagged far behind. To date, only nine states permit interstate branching: Alaska, Connecticut, Massachusetts, Nevada, New York, North Carolina, Oregon, Rhode Island, and Utah. All but Utah require reciprocation by the state that headquarters the bank seeking entry. Because of the McFadden Act, only state banks that are not members of the Federal Reserve System may take advantage of those laws.

A Prescription for Change

Giving a well-structured boost to interstate branching is not a simple task, for it requires a careful weighing of several important factors. In taking on that challenge, I apply the same two-part test that we apply to all other new banking activities. To be permissible under this test, a new activity:

- should not adversely affect safety and soundness; and
- should, on balance, benefit consumers of financial services —large and small businesses as well as individuals.

A fair application of this test clearly implies that federal law should permit interstate branching, and we are taking steps to secure that result. On October 25, Secretary Bentsen announced the administration's support for a change in federal law that would give interstate banking companies the opportunity to consolidate their banking subsidiaries into branching networks, with the approval of the appropriate state. We support a change under which:

- Any bank holding company would be permitted to consolidate its existing bank subsidiaries headquartered in another state (the "host" state) into multistate branches of a single bank and to acquire a bank headquartered in the host state, unless that state opted out of such consolidations and acquisitions.
- Once an out-of-state bank holding company had acquired a bank in a host state, it could convert the acquired bank into branches.
- After such an acquisition and consolidation, the out-of-state bank would be free to branch anywhere within the host state, limited only by any restrictions that host state law places on intrastate branching.
- States that preferred not to allow acquisitions and consolidation into branches by out-of-state banks would be free to opt out.

This approach builds on the strengths of the dual banking system. National banks and state-chartered banks that are members of the Federal Reserve System (member banks) would not be permitted by federal law to establish *de novo* branches across state lines, although states would be free to permit entry by branching as they are today. Only the states could decide whether to opt out, i.e., whether to prohibit out-of-state bank holding companies from consolidating their bank subsidiaries into multistate branch banks. State laws would also control the terms and conditions of additional branching within the state, as they do today. Further, states would be allowed to forbid acquisitions and consolidations by out-of-state banks and bank holding companies.

Permitting banks to build interstate branch networks will allow them to provide more convenient and cost-effective service to their customers. Within each branch system, customers would be dealing with the same bank in every state and could make withdrawals and deposits in any branch and still have all transactions recorded as part of their account at the surviving bank, wherever it might be located. The banking organization itself would be more efficient, in part because all the branches would have common policies and operating procedures.

I will now discuss why interstate branching, as we envision it, meets my two-part test.

Bank Safety

There are several important elements to bank safety. Interstate banking has permitted banking companies to diversify their asset portfolios and their sources of income more fully, reducing the impact of an economic shock in any particular region, and providing a greater margin of safety to the bank and its deposit insurer. Moving from interstate banking to interstate branching increases the ease of accomplishing further diversification.

However, the greatest additional safety and soundness advantage afforded by interstate branching is lower costs. By reducing operating costs, interstate branching would increase returns on equity, directly strengthening the industry's bottom line. Indeed, consolidation of multibank holding company bank subsidiaries into branches would generate cost savings in a variety of ways. It would eliminate the need for multiple charters, boards of directors, and administrative structures; facilitate the consolidation of back-office operations; and allow banks to achieve greater economies in the advertising and marketing of financial services.

Consolidation of banks into interstate branching networks would also reduce the burden of complying with government regulation by decreasing the number of regulatory reports that the bank must file and the number of requests for information that it receives from its supervisor. For example, each quarter, every bank submits a Report of Condition and Income (call report). Those reports are approximately 30 pages long and include about 600 items for banks with over $100 million in assets and about 400 items for smaller banks. Thus, a multibank holding company with 10 separate affiliate banks submits 10 reports each quarter. If a multibank holding company could consolidate its banks into a single bank with branches in several states, it would have to provide only one set of information, not several sets. Savings such as these would complement current efforts by the OCC to reduce unnecessary regulations.

To the extent that banks achieve the potential cost-savings available to them, they will be that much stronger. Consolidation of operations into branches would leave the banking firm's consolidated balance sheet unchanged; it would not add in any way to the risks of banking. Instead, by reducing operating costs and increasing the convenience and value of banking services, consolidation should improve the financial condition of national banks. By realizing cost savings, banks will be able to augment capital, directly improving safety and soundness.

Supervising Interstate Branching Networks

An important part of bank safety is, we would all agree, effective bank supervision. I believe that interstate consolidation would not present supervisory challenges that the OCC does not already face in supervising large multibank companies. Money-center and super-regional banking firms have complex and far-flung operations that often extend over several states and more than one OCC supervisory district. We have met the supervisory challenges posed by those banking companies. The switch from multibank holding companies to consolidated interstate banks could ultimately reduce the severity of these supervisory challenges and allow us to concentrate our resources further on reducing systemic risks to the banking industry and eliminating unfair, deceptive, and discriminatory lending practices.

Our experience in the supervision of large multibank organizations has also prepared us well for supervising consolidated interstate branch networks. Our objectives in supervising national banks involve:

- assessing the condition of each bank and the risks associated with its current and planned activities;
- determining if risk management systems exist, and if those systems are properly designed;
- communicating with bank management and board(s) of directors in a timely and clear fashion about our supervision, the findings of supervisory activities, and those matters that require corrective or remedial attention;
- causing banks to correct deficiencies in condition and/or risk management systems; and
- validating the correction of deficiencies.

The organizational structure used by the financial institution to provide banking services, whether a multibank holding company or a consolidated interstate bank, does not alter these basic supervisory objectives.

Consolidation of interstate operations of multibank holding companies should also provide net operating efficiencies to the regulatory system as a whole. Federal law requires the OCC and the other federal banking agencies to conduct annual examinations of each bank within its jurisdiction. The elimination of the need to maintain separate charters in each state in which financial institutions operate will likely reduce the

total number of banks within any given organization and, therefore, reduce the number of separate examinations the regulatory agencies are required to conduct each year. Importantly, a potential reduction in the total number of chartered entities examined will not undermine safety and soundness. Consolidation should permit the supervisory agencies to focus more sharply on the risks to the organization as a whole, to conduct a more efficient review of overall asset quality, and to provide a truer picture of the condition of the institution.

Consolidation may also promote efficiencies in the performance of each examination. For example, the switch from a multibank holding company to a consolidated interstate bank will reduce the total number of directors, officers, and other insiders in any given financial institution and, therefore, make it easier to identify and take corrective action for violations of insider regulations. These changes can only improve bank safety and soundness.

Consumer Benefits

Although the primary benefits of interstate banking consolidation would be in the form of lower bank costs, the potential for some important consumer benefits also exists. It appears that interstate banking has benefitted consumers by increasing competition and expanding the array of financial services. Even so, there is much room for improvement. Currently, banking is not as convenient as it could be for consumers who frequently travel across state lines. For example, a customer of a bank in New Jersey located near his or her home may not be able to obtain, conveniently, banking services at an affiliated bank in New York City located near his or her place of work. Consolidation of separately chartered banks into branches under a single charter would make it much easier for customers to conduct transactions at any branch throughout the entire service area of the consolidated bank.

While we believe that interstate branching through consolidation of commonly owned banks is good policy, in part because it will benefit consumers, consumer protection must remain a high priority for bank supervisors.

Consumer Protection

The Clinton administration is committed to ensuring that the benefits of a safe and sound banking system extend to all segments of society. Finding better ways to encourage banks to invest in their local communities is a key part of that commitment, particularly with expanded interstate branching.

CRA regulations require banks to address the credit needs of their delineated communities. As banking firms consolidate their operations, the responsibilities of individual banks under the CRA will naturally multiply, and bank supervisors will have to find ways of ensuring that banks that have branches in widely separated areas help meet the credit needs of all of the communities they serve. Interstate branching should not impair CRA performance.

This is a challenge that we can surely meet. It is the same problem that federal banking agencies and banks already face in crafting meaningful CRA evaluations in states that permit statewide branching. This is one of the issues that the federal banking agencies are currently reviewing as part of the president's initiative to make fundamental changes in CRA administration. I believe that the revised CRA evaluation process will provide an appropriate model for assessing the performance of banks with interstate branches.

For all of its importance, CRA is not the only federal protection of consumer interests. Other protections are provided by laws extending from the Equal Credit Opportunity to Fair Housing to Truth in Lending and Truth in Savings, just to name a few. As in the case of CRA, bank supervisors have had ample experience in enforcing those laws with respect to large intrastate branching networks. We are prepared to enforce them with respect to large interstate branching networks.

Service to the community is not, of course, defined exclusively in terms of adherence to consumer protection and related laws. It is also defined in terms of the personalized service that is the hallmark of community banks. We are confident that community banks will continue as strong competitors in an era of interstate branching.

When large and community banks compete in the same geographic markets, the performance of community banks remains competitive. Pennsylvania, for example, moved from highly restrictive branching to full intrastate branching during the 1980s. Small banks continue to operate successfully there. At the end of last year, there were 281 insured banks in Pennsylvania. We divided them into four classes based on size — banks with assets under $100 million, between $100 million and $1 billion, between $1 billion and $10 billion, and over $10 billion. We then computed the median return on assets (ROA) for each size class. Beginning with the smallest banks, the median ROAs were: 1.01 percent, 1.13 percent, 1.15 percent, and 1.03 percent, respectively.

The performance of banks of all sizes does vary from year to year and from state to state for a host of reasons, ranging from the conditions of local and national economies to where banks are in their long-run strategic plans, to changes in management or manage-

ment philosophy. However, for the reasons I have cited, we expect community banks to retain their traditional role in local credit markets, and credit-worthy local borrowers should continue to be able to obtain the financing they need. Successful banks traditionally have been those that best meet the needs of the markets they serve. Competitive forces have led many large banks to become adept at providing a high volume of services at low cost, but this advantage is generally limited to products that do not require a high degree of personal service. Many small banks, on the other hand, have excelled at providing high-quality, personalized services to their clients. This is particularly true of small business lending, which requires knowledge about small borrowers and local credit conditions that community banks are more likely to possess. Local customers who value customized service are therefore likely to continue to seek the financial services of smaller banks, whether or not a branch of a large bank is located across the street.

Finally, we must continue to ensure the proper application of the antitrust statutes to banking; those laws provide important protections against undue concentrations of economic power. Earlier this year, Mr. Chairman, you requested that the OCC assess the effects of the consolidation that has occurred to date in the banking industry. I would like to summarize our detailed responses, which we have provided to you in a separate letter.

First, we must exercise great care in measuring concentration. Researchers often encounter severe difficulty in accurately identifying all relevant competitors and measuring their share of the relevant market. Competitor identification is especially important, since the inclusion or exclusion of different types of financial services firms affects the size of concentration ratios.

We must also be careful in interpreting the economic significance of concentration ratios. For example, in assessing the possible implications of particular concentration ratios on competition in a market, analysts need to take into account the ease with which competitors may enter that market. The greater the ease of entry, the less is the significance of a particular concentration ratio.

We also need to be concerned about how we identify the markets that should warrant our vigilance. Banks are multiproduct firms, and most experts seem to agree that in banking the size of the appropriate geographic market depends significantly upon the types of products and services banks sell. Some services, such as lending to small businesses, may be offered in small, local markets, while other services, such as lending to regional and national firms, would cover much larger areas.

In the light of those considerations, we are skeptical about the competitive implications of statewide ratios that measure the concentration of banking assets or other indicators of bank products. Nonetheless, OCC staff computed the Herfindahl-Hirschmann concentration index (HHI), a measure of concentration preferred by many researchers, for banking assets, state by state, for 1986 and 1992. The median index dropped by one point over that period, from 948 to 947. The median value of the corresponding index for net loans fell nine points from 1000 to 991. Those results indicate a reduction in concentration.

We were also particularly interested in concentration trends in local markets in Indiana, Oregon, South Carolina, and Washington, states that witnessed significant entry by out-of-state banking companies in recent years. For those states, the staff calculated deposit-based HHIs for banks and thrifts in 29 urban markets for the years 1988 through 1992. Over the four-year period, HHIs declined in 14 of the 29 markets, meaning that concentration had declined in those markets. For the remaining 15, the median increase was under 8 percent. For us, those results were not especially surprising. A recent Federal Reserve study found that between the mid-1970s and 1990, the percentage of deposits in urban and rural markets nationwide held by the three largest banks in those markets dropped slightly, on average.

Conclusion

For many years, observers both inside and outside government have pointed out the need to remove the archaic restrictions placed on the U.S. banking system. Our banking system would function more efficiently without them and would be better positioned to meet the convenience and needs of the banking public. Interstate branching would be an important step in that direction, permitting banks to serve their customers better and at lower cost, while enhancing the safety and soundness of the banking system.

Statement of Eugene A. Ludwig, Comptroller of the Currency, before the Senate Committee on Banking, Housing, and Urban Affairs, on fair lending, Washington, DC, November 4, 1993

Mr. Chairman and members of the committee, I welcome this opportunity to appear before you today to review the Office of the Comptroller of the Currency's efforts to enforce fair lending laws. I share your concerns about lending discrimination and want to assure you that the OCC is working hard to see that national banks comply with anti-discrimination laws. As I have stated on many occasions, vigorous enforcement of banks' compliance with fair lending statutes is one of my highest priorities.

As bank supervisors, we at the OCC have a legal and moral obligation to make certain that credit decisions by national banks are made without regard to race, gender, or other prohibited bases. The OCC will do all it can, on its own and in conjunction with other federal regulatory and enforcement agencies, to ensure that all individuals have a fair and equal opportunity to obtain credit from national banks. When we uncover apparent discrimination, we will act promptly and responsibly to take appropriate enforcement actions and make referrals to other enforcement agencies.

Protecting against discrimination is a responsibility we all have. I support diversity in the work place and I am firmly committed to upholding Equal Employment Opportunity (EEO) laws at the OCC. In order to protect against discrimination, I have assigned one of my senior advisors to run our EEO program, and I have established two hotlines to address employees' questions and concerns regarding sexual harassment.

In my statement today, I will describe the OCC's efforts to enforce fair lending laws and steps being taken to strengthen cooperative efforts among the federal banking agencies, and with the Department of Justice (DOJ) and the Department of Housing and Urban Development (HUD).

Enforcing Fair Lending Laws

The OCC is taking a number of steps to improve its performance in the area of fair lending enforcement. First, we are improving our methods for detecting discrimination through new interim compliance examination procedures that focus more sharply on the characteristics of accepted and rejected mortgage applications. Second, we are increasing the resources we devote to compliance examinations and providing incentives to attract and retain skilled compliance personnel. Third, the OCC is developing a program that will use testers to compare the treatment of mortgage applicants at the preapplication stage. Fourth, we are developing statistical methods, using Home Mortgage Disclosure Act (HMDA) data and other information, to assist our examiners in detecting apparent discrimination. Fifth, we are expanding our outreach effort with the banking industry and others by participating in conferences and seminars. Last, and perhaps of considerable importance, we are working closely with other federal banking and thrift regulatory agencies, the DOJ, and HUD on strategies and methods to take administrative and civil action against institutions that violate federal fair lending laws.

I would like to point out that federally regulated banks are, in effect, held to higher fair lending standards than non-federally regulated lenders. While the federal banking and thrift agencies are working hard to enforce fair lending laws, please bear in mind that many non-federally regulated intermediaries are not examined for compliance with fair lending laws. Given the importance of fair lending compliance, the Congress may wish to consider further measures to ensure that all lenders comply with fair lending laws they are required to uphold.

New Examination Procedures for Residential Lending

Findings of apparent discrimination by the OCC and the other federal banking agencies have, in the past, been rare. Prior to July 1993, the OCC had only made one discrimination referral to the DOJ. Since July, we have made four referrals. Formerly, we examined residential home loan files one by one, looking for violations of law. Those procedures were primarily predicated on the premise that discrimination consisted of well-qualified minority applicants being denied loans. In such circumstances, careful review of a victim's loan file might reveal certain technical and procedural violations of the fair lending laws, such as improper requirements for spousal signatures and inadequate notification of the reasons for denying a mortgage loan application. But because we did not systematically compare loan files with one another across racial and ethnic lines, that process was not likely to detect differences in the amount of accommodation and assistance a lender provided to applicants. In many cases, such assistance — requesting explanation of derogatory credit information, suggesting ways to improve an applicant's reported income or reduce the applicant's current debt, or offering an ap-

plicant loan options that might improve his or her ability to meet underwriting standards — can mean the difference between denial and acceptance.

New Examination Procedures

In March 1993, the OCC issued new interim examination procedures based on the principle of comparative file analysis, to test for illegal discrimination in residential mortgage lending by national banks. OCC examiners compare banks' actions on a sample of applications by members of a minority group with the banks' actions on a sample of the majority population. These procedures attempt to determine whether the home loan application process yielded similar results for minority and nonminority applicants with similar qualifications, and whether the bank gave comparable assistance to minority and nonminority applicants during the loan process. OCC examiners are currently using these revised examination procedures in all sections of the country.

Our procedures focus on residential lending because banks regularly report information about the race, national origin, and gender of the applicant, in accordance with HMDA. I am also concerned, however, about the possibility of discrimination in lending for small business and general consumer loans. I have directed my staff to explore whether it is practical to seek changes in current regulations that prohibit gathering racial and other monitoring information on business and consumer loans.

We are continuing to refine and improve these procedures over time as we gain experience. We have shared them with all interested parties, including banks, government agencies, housing groups, and civil rights organizations, in order to solicit comments. We want our final procedures to incorporate the best ideas.

Evaluation and Referral

Using our new examination procedures, an examiner will reach a preliminary conclusion regarding whether there is an apparent difference in treatment based on prohibited factors. That preliminary conclusion may be based on assessments of the institution's own policies or pronouncements, documents from loan files, or statistically valid analyses of the institution's lending. When our testing program (which I will discuss later in my statement) is in place, a preliminary conclusion may also be based on testing results. The institution is then given the opportunity to explain the differences in treatment. If the institution's explanation is not persuasive, the supervisory office will proceed with enforcement actions. The OCC will work to ensure that its referrals are well grounded in fact and fully documented.

It is our belief that discrimination, where it occurs, often affects applicants with some blemishes — relatively little time in a current job, past instances of late payment on certain obligations, high ratios of debt to income or housing expense to income — as part of their application files. In such cases, there can be a basis for denial or disparate treatment of loan applicants.

The critical question, however, is whether the stated reasons for denying the loan, or for granting the loan on less favorable terms, are legitimate, or whether they reflect discrimination. The answer to that question requires a comparison of target group applications and other applications from a control group. In essence, we are looking for evidence of disparate treatment. This method helps to determine whether the lender used the same underwriting standards and offered the same degree of accommodation, assistance, and flexibility to all applicants, regardless of race, color, ethnic origin, religion, gender, age, marital or familial status, or disability. Using this method, we are better able to determine if well-qualified minorities, or other groups protected by fair lending laws are being denied credit or given disparate treatment on illegal grounds.

The OCC has completed special compliance examinations at 20 national banks since March. We selected these institutions because there appeared to be significant disparities among loan application decisions involving white, African American, Hispanic and Native American mortgage applicants. The rejection rates of nonwhites by these institutions appear to be higher than at other institutions within the same metropolitan area, and applicants had filed fair lending complaints against the institutions. In selecting banks for these special compliance examinations, we also consulted fair housing groups and relied on other information gathered through routine exams and the supervisory process. In total, we expect to conduct over 200 examinations in 1993 (many of which are not yet complete) using the new examination procedures. These examinations will be conducted by either our special compliance examiners or through our routinely scheduled examinations. Additional such examinations may be scheduled in 1994.

Examiner Training

The OCC recognizes, based on our experience and comments from banks and community groups, that special skills and procedures are required in its examinations for compliance with statutes and regulations pertaining to equal, nondiscriminatory access to credit. The OCC has decided to increase significantly our use of specialist examiners for fair lending and other consumer compliance examinations. Overall, the OCC is dedicating more resources to consumer issues

than in the past. The OCC plans to allocate in 1994 a total of 530 FTEs, on an annualized basis, to carry out all our consumer, community reinvestment, and fiduciary activities. By comparison, the OCC used 330 FTEs in 1992. This represents a 60 percent increase.

The OCC has now adopted an expanded training and career development program for examiners wishing to specialize in compliance work. Specialist consumer compliance examiners should be more effective than generalist examiners, who are responsible for both safety and soundness and consumer compliance examinations, in fully implementing our new procedures. Examiners choosing to specialize in compliance examinations will receive more extensive training in the techniques and skills used in compliance examinations. These examiners will have similar opportunities for advancement in their specialization as those following the traditional safety and soundness examination career path.

In addition to establishing a new career track for compliance examiners, the OCC has hired two specialists experienced in civil rights enforcement. They will develop, implement, and monitor the OCC's fair lending program and support examiner efforts to detect apparent discrimination. These specialists are assisting compliance examiners in analyzing preliminary evaluations, coordinating referrals to the DOJ, and notifying HUD. Finally, in ensuring that our training and methods generally are the best possible, we will be constantly consulting with the other agencies and departments involved in resolving the problems of lending discrimination.

Testing

Our revised fair lending examination procedures, even when implemented by highly skilled, well-trained examiners, will not enable the OCC to discover how persons inquiring about loans are treated prior to submitting an application. Consequently, the OCC is working to establish a testing program to detect unlawful discrimination at this preapplication stage of the credit process. Testing for lending discrimination has been used with some success by private fair housing organizations in investigations of discrimination in the rental or sale of housing. We expect to begin testing in early 1994.

Testing for lending bias, by its very nature, addresses subtle, multifaceted behavior and requires great care. In developing a lender testing program, we have consulted with HUD and others with experience in the testing field. Although we are still in the developmental stage, I can offer some details of the likely characteristics of our testing program. It will be used for enforcement purposes, not as a research tool. We will contract for testers with one or more outside organizations. We will not use OCC examiners to conduct tests because we believe this would compromise the OCC examiner's supervisory role.

Statistical Analysis Using HMDA Data

In order to assist our compliance examiners, the OCC is in the process of developing a statistical model using HMDA data and other information to uncover patterns of unfair residential lending at individual banks. Our model is similar to the approaches developed by the Federal Reserve Bank of Boston in 1992, and by the Department of Justice to develop its landmark case against Decatur Federal in 1992. Once we have tested the model on individual institutions, we hope to use it as one of several tools for our compliance program. If our model detects significant disparities that are not explained by credit-related factors, we anticipate following up by reviewing specific loan decisions that the model indicates are questionable to attain a more accurate assessment of the institution's fair lending practices. When we gain more experience with the model and fully understand its strengths and weaknesses, we might conceivably make referrals, and initiate enforcement action against an institution, based largely on the findings of our model.

At this stage of our research, we have found that statistical models using HMDA data have limitations. First, HMDA data, in their current form and with the statistical methods that we have developed thus far, cannot be used to prove discrimination because they do not contain enough information on major credit-related factors such as employment and credit histories. We believe that careful examiner review and further evaluation is also necessary to determine if discrimination has occurred. Second, it is difficult to determine from HMDA data whether small banks are discriminating, because they may not originate or own a large enough number of residential mortgage loans for us to draw statistically valid conclusions. Third, the OCC and other banking agencies have uncovered anecdotal evidence that many banks are filing inaccurate HMDA reports. This tends to cast some doubt on any HMDA-based analyses. For instance, one of the 20 banks we examined recently has been cited for HMDA reporting problems. To address errors in HMDA reporting, we have stepped up our efforts to ensure that the banks' HMDA reports accurately reflect their actual lending behavior.

Notwithstanding the limitations, the most recent HMDA data are troubling. Preliminary HMDA data for 1992 on conventional mortgages originated at national banks and their mortgage subsidiaries show a continuation of

wide differences in rejection rates among whites, African Americans, Hispanics, and Asians. While the percentage of rejected applicants for all race categories decreased in 1992, the gap between minority and nonminority rejection rates did not change. Thus, there has been little or no improvement in relative terms since 1991. African American and Hispanic applicants are still twice as likely to be rejected compared to whites. National banks and their mortgage subsidiaries rejected 15.7 percent of white applicants, 35.0 percent of African American applicants, 31.2 percent of Hispanic applicants, and 19.4 percent of Asian applicants in 1992.

There were some small bright spots for some minorities. The percentage of applications filed by African Americans increased from 4.2 percent in 1991 to 5.0 percent in 1992, and the percentage of applications filed by Hispanics increased from 4.2 percent to 5.1 percent. These figures remain, however, significantly below these groups' share of the total U.S. population, which is 12.5 percent for African Americans and 8.8 percent for Hispanics.

Outreach Efforts

Another element of our efforts is to communicate to the public how seriously the OCC takes its fair lending responsibilities. Since March, I have made over 10 major speeches to bankers, community groups and others on the issue of fair lending and Community Reinvestment Act (CRA) reform. Members of OCC's compliance staff in Washington have participated in 24 meetings, seminars, and conferences since March. During the third quarter alone, our district offices have participated in over 100 outreach meetings with bankers, community groups, and others. During the many CRA hearings the OCC organized around the country, I have heard first-hand from individuals and community groups that discrimination harms individuals and deprives many communities of essential capital. We intend to continue this outreach effort in 1994.

OCC staff members have explained our fair lending enforcement efforts and educated bankers on ways they can comply with fair lending laws. I believe that most banks want to do the right thing in fair lending, and I am committed to making sure that the OCC contributes to industry efforts to eliminate discrimination. One of the goals of our outreach efforts is to assist banks on ways they can set up better controls to ensure fair and equitable lending. We explain how banks can comply by explaining how they can identify and thus avoid common pitfalls. For example, we emphasize the need to do comparative analysis of minority versus nonminority applicants. We encourage banks to look at areas where loan officers have discretion for setting the terms of a home loan to see if the terms are different for particular groups.

Interagency Cooperation

We have entered a new era of interagency cooperation and coordination regarding fair lending enforcement. The OCC has been working closely with other federal banking and thrift regulatory agencies, the DOJ, and HUD to develop strategies for enforcing the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA). The goal of this interagency effort is to send a clear message that we will not tolerate discrimination. We have been gratified by this cooperation we have received from HUD and DOJ in our anti-discrimination efforts. We are also confident that this cooperative interagency effort greatly enhances our ability to resolve this important problem.

In May, we issued an interagency statement to financial institutions reaffirming our commitment to the enforcement of fair lending laws and providing guidance on fair lending matters. The banking agencies are revising the supervisory enforcement policy for violations of the ECOA and FHA. The revised policy, which will replace a policy statement issued in 1981, specifies the actions that we will take when we find violations of the ECOA and FHA. The agencies are also developing uniform fair lending examination procedures and training programs.

The OCC will consider a number of factors in determining whether and how to use our administrative enforcement authority to address apparent discriminatory conduct. The nature of the OCC's action and the relief being sought for victims will be a function of various factors including the number of violations identified, their duration, the amount of money involved, the nature of the discrimination, whether the discrimination was limited to a particular office or unit of the bank, whether the apparent discrimination was institutional in nature, the presence and effectiveness of any nondiscriminatory bank policies, any history of discriminatory conduct, and any corrective measures taken or offered by the bank. The more egregious the conduct, the more severe the OCC's enforcement response will be. Where enforcement action is taken, it will likely include requirements that compensatory and punitive damages be offered to victims of discrimination and that the bank take all affirmative steps necessary to correct practices resulting in discrimination. Remedial measures could include modification and enhancement of the bank's lending policies, internal controls, and procedures; improved training of bank personnel; development and adoption of lending programs directed at low- and moderate-income segments of the bank's community; and enhancement of marketing and community out-

reach programs. Finally, any such action would include appropriate reporting requirements to monitor the bank's compliance with the administrative action.

Joint Efforts with DOJ

The OCC is committed to working closely with the DOJ as part of our overall enforcement responsibilities under the fair lending laws. The OCC has already referred four discrimination cases to Justice under its new fair lending policy, including one race, one marital status, and two age discrimination cases. We are fully cooperating with Justice on all referrals. The race discrimination case involves disparate treatment in loan rates received by minority borrowers for certain unsecured home improvement loans. We are currently in the process of reviewing this case with Justice and it is our expectation that our efforts will lead to a mutually agreeable approach on the level and type of appropriate administrative and civil measures which should result. The OCC has also shared information with Justice, in a manner consistent with the Right to Financial Privacy Act, in preliminary investigations initiated by Justice.

The Equal Credit Opportunity Act (ECOA) specifically provides that the federal banking agencies shall enforce compliance. ECOA also requires the OCC, and other federal banking agencies, to make referrals to the DOJ whenever we have reason to believe that an institution's lending demonstrates a pattern or practice of disparate treatment on the basis of race, gender, or another prohibited basis. We also make referrals to the DOJ when an institution's credit practices, although applied neutrally to all applicants, have a disproportionate effect on protected groups, unless the practice is justified by legitimate business considerations. In addition to the DOJ's authority to file civil actions, the OCC has the authority to seek cease and desist orders, compensation for victims, monetary penalties, and the assessment of punitive damages, where appropriate.

Joint Efforts with HUD

If the OCC's examinations reveal isolated instances of discrimination — as opposed to a pattern or practice of discrimination — then the OCC will take appropriate administrative enforcement action on its own. In addition, if the isolated instance of discrimination is a violation of the Fair Housing Act, the OCC will promptly notify the Department of Housing and Urban Development, so that it can take any action it deems appropriate.

The OCC also cooperates with HUD in addressing consumer complaints that the OCC receives alleging violations of the Fair Housing Act (FHA). The banking agencies and HUD have implemented a memorandum of understanding to govern the handling of such consumer complaints. The memorandum covers complaints alleging discrimination in residential lending on the basis of race, color, national origin, religion, sex, familial status, and handicap. To date, the OCC has notified HUD of over 100 complaints of violations of the FHA.

The OCC and HUD have formed an interagency working group to strengthen our efforts to counter discrimination in mortgage lending. Through that working group, HUD has shared with the OCC its testing methods learned from its experience with private fair housing groups and local fair housing agencies. We are also working with HUD (and the other banking agencies) to develop a policy statement on lending discrimination. That statement, to be issued within the next year, will be used to guide banks, courts, attorneys, fair housing groups, and others on what constitutes discrimination in mortgage lending. The policy statement could also be used to assist the efforts of fair housing groups, and will serve as a foundation for rulemaking on discrimination issues.

In the years ahead, we are looking forward to expanding our joint efforts with HUD, especially in the areas of testing for lending discrimination, statistical modeling, and complaint resolution.

Conclusions

Stamping out illegal discrimination in bank lending is a primary goal of the OCC and one that I am firmly committed to enforcing. We are revising the methods we use to conduct fair lending examinations, so that we can more effectively detect and take action against lending discrimination. We are establishing an expanded training and career program for examiners specializing in compliance. We are making it clear that this specialization will be viewed within the OCC as equal in importance to specialization in safety and soundness examinations. We are working cooperatively with the Justice Department and the Department of Housing and Urban Development to enforce fair lending laws.

Banks provide credit and services that are essential to the economic life of the community and to the welfare of individual homeowners, proprietors, and entrepreneurs. One of my highest priorities during my tenure has been ensuring that credit decisions by national banks are made on a fair and equal basis. It will remain a top priority during the remainder of my tenure as Comptroller of the Currency.

Remarks by Eugene A. Ludwig, Comptroller of the Currency, before the Annual Convention of the American Bankers Association, on the direction of the banking industry, San Diego, California, November 7, 1993

It is indeed an honor for me to be here today. As you may have guessed, I have a high regard for bankers and for this organization for a variety of reasons. Chief among them is the notion that banking is not an end in itself, but the means to an end, and that end is economic development, with its promise of a better life for all Americans. Another reason is your outgoing president, Bill Brandon. Over the last year, the capable and forward-looking leadership of Bill Brandon has awakened the ABA to a number of challenges that have emerged for the industry. Bankers will continue to benefit from his advice for years to come.

As I have said publicly for some time, this industry is enjoying a temporary cyclical upturn amidst a powerful secular decline. There are many reasons for this decline, among them overregulation, product and service restrictions, and the fact that market competitors have not born their share of the social responsibilities that have been placed on the banking industry. This decline, occurring over decades, has gradually eroded the relative importance of banks in our financial system. Once the predominant financial institution in our country, the commercial bank is now perceived as just another player — a player without a unique selling point to differentiate itself from the competition. It will, therefore, take more than simply changing the rules for banking to reverse its course. Banking must find a way to show that it is different from its competition, and better in some way, too.

I am certain that, for that to happen, banks have to convince their customers — through deed as well as word — that their first concern is for the customer and the community in which the customer lives. When I was growing up in York, Pennsylvania, this was so — banks were perceived to be the pillars of their communities, the safe-and-sound financial institutions where people of high integrity, people you could trust, offered service and advice, not just in the business relationship, but also on the school board and in other civic and business associations. Perhaps in York, Pennsylvania, things have not changed much in that respect. But public regard for the industry, as an industry, is not what it used to be. Today I want to talk with you about what the industry can and should do to retake the high ground.

In this regard, the story of the origin of the American Bankers Association is worth repeating. On a blustery January day in 1875, two St. Louis bankers, James T. Howenstein and Edward C. Breck, were walking home when they passed an auditorium where a woman's suffrage meeting was in progress. Mr. Howenstein remarked that, if suffragists could come from all parts of the country in the interest of a common cause, there was no reason why bankers could not do the same. From these casual words, this association was born.

The following May, Howenstein invited 17 representative banks to send delegates to an organizational meeting. Two months later, 350 bankers from 32 states convened at Saratoga Springs, New York, to lay the foundation for the association.

Trade Associations and Self-Governance

In forming a national trade association, bankers were ahead of the curve. In the coming decades, hundreds of trade associations were formed. There were many reasons why voluntary associations developed, but a principal reason was to protect the reputation of an industry or business from abuse by predatory or unsavory types who jeopardized the standing of upright performers. The trade associations tried to protect their reputations by establishing or raising standards for their industry and codes of conduct for their members — to set the highest, not the lowest, common denominators. In this way, the reasoning went, they would eliminate the rotten apples.

To be sure, another element was at work here: establishing or raising standards, and adhering to them, was good business — what we might call today a "high marketing concept." Promoting public confidence in your business, product, or service, or in your honesty, for that matter, would lead to what today we call customer loyalty. Customer loyalty would lead to increased business, which in turn would lead to increased profitability. As one of the business leaders of that age later often told his colleagues: "Honesty *is* the best policy. I know, because I've tried it both ways."

And, of course, there was a third objective for these efforts at self-governance: they were attempts to preempt government regulation. That may sound cynical, but why? If such efforts worked — if quality was maintained or enhanced, if the consumer was protected from loss or harm, if a product or service was offered at a fair price — so much the better. The consumer's interest was addressed without the government imposing a regulatory burden on the industry.

Now the question I want to pose here today is whether, somewhere along the way, this industry's self-regulatory effort has fallen short, resulting in an immense regulatory burden on banking.

Regulatory Burden — The Problem

Why would I suggest that the banking industry's efforts in self-regulation have fallen short? What is the evidence? Simply this: over the last 30 years, the government has had to step in, again and again, with legislation intended to correct or to remedy problems in the banking industry. The government has had to step in to require banks to treat their customers fairly, to end sharp practices, and to make full and fair disclosure so that consumers can make informed, and therefore, rational, decisions.

Consider this partial list, covering only the decade 1968 through 1978: the Truth in Lending Act, the Consumer Credit Protection Act, the Fair Housing Act, the Fair Credit Reporting Act, the Fair Credit Billing Act, the Equal Credit Opportunity Act, the Consumer Leasing Act, the Fair Debt Collection Act; the Electronic Fund Transfer Act, the Right to Financial Privacy Act.

I am not here to defend these laws. Many of them, in various ways, are extremely crude. Many of them are not especially effective in solving the problems to which they were addressed. Some of them are very costly to comply with. If it were up to me, I am sure I would make big changes in many of the laws — and maybe even repeal a few of them.

But I do want to make this point: Congress often does a poor job of developing the best solutions to particular problems, but it seldom legislates for no reason at all. Anybody who has seen the legislative process up close knows well how difficult it is to get legislation passed. When you see Congress make a new law, you can count on the fact that a lot of elected representatives felt that something was significantly amiss.

Why have they felt that way toward banking so many times over the years? The basic reason, I think, is simply that, time after time, both the industry and the regulatory community have failed to identify and address minor problems, before those problems get out of hand and rise to the level of concern that occasions legislation. Indeed, both the industry and the regulatory community have characteristically compounded their failure to recognize these problems by denying the existence of problems long after they have become apparent to everyone else.

Let me give you a simple example of what I am talking about. Sometime in the early to mid-1980s, a few banks began to attract consumer complaints because they were engaging in a very simple type of consumer abuse: they were advertising one rate of interest and paying another. By about 1986, Congress was beginning to take an interest in the problem. Hearings were held, some news stories were generated, but the banks continued this consumer abuse and the regulators continued to let them get away with it.

You might have thought somebody in the industry would have become upset. After all, if you are playing by the rules, it hurts your bottom line when your competitor down the street is not. Nevertheless, the practice continued to grow. By the late 1980s, the number of banks involved had grown, and so had the size of those banks. Hundreds of thousands of consumers were being caught up in these unseemly practices.

Because nobody else was doing anything about the problem, Congress felt it had to step in. And the result was the Truth in Savings Act. A meat-ax solution to a scalpel problem, perhaps, but that is what you often get with legislation, as the banking industry knows all too well.

The Truth in Savings Act standardized terms in interest-bearing deposits, just as the Truth in Lending Act standardized terms in loans. And it required banks to disclose those terms. Why? Because a small number of banks — far from the majority — took advantage of the savers who brought them their funds. As a result, all of you — the innocent as well as the guilty — have had to pay the costs of Truth in Savings.

Another package of consumer protection legislation may soon be percolating through Congress. Last July, the OCC issued guidance on bank sales of retail mutual funds and other retail nondeposit investment products. This guidance had been developed in close consultation with industry leadership, including representatives of the ABA. And days before we issued the guidance, I personally met with the ABA Board of Directors in Colorado Springs to outline what we were about to issue. Our guidance came in the form of a banking issuance, not a regulation. An advantage of guidance over regulation is that guidance sets a goal and allows bankers to use their discretion to find a way to achieve that goal. Regulation generally details, not just where you are going, but how you are going to get there.

As part of our guidance we stated the following: "Complete and accurate disclosure must be provided to avoid customer confusion as to whether a bank-related product is an investment product or an insured bank deposit. When selling, advertising or otherwise marketing uninsured investment products to retail customers,

the following product disclosures should be made *conspicuously:* The products offered: (1) are not FDIC insured; (2) are not obligations of the bank; (3) are not guaranteed by the bank: and (4) involve investment risks, including the possible loss of principal."

The important word in this guidance is: *conspicuously.* Conspicuous means striking, attracting attention, obvious to the eye. We thought — and the banking leadership we worked with thought — that if we said disclosures should be conspicuous, bankers could figure out a way to do that. Right? Well, sadly, thus far that has not been true in every case.

A few days ago, I was sent a number of brochures and other materials promoting bank-marketed mutual funds. Some of these materials are pretty good. I have before me a flyer produced by one of the largest banking organizations. If I held it up at arm's length I could still read it — and every disclosure we asked for is conspicuously stated. It is even illustrated by the international symbol for "no" — the circle and the slash — superimposed over the FDIC logo to drive home the point that mutual fund products are not insured by the FDIC. The bank, I believe, provides this disclosure with all its mutual funds promotions.

But here I have before me a brochure from another institution. Where are the disclosures we asked for? Buried in tiny type on the back. This is not an isolated example of what many people believe is inadequate disclosure. I have seen similar disclosures at the bottom of advertisements. And newspaper reporters have brought me still others.

Let me make a prediction for you right now: if the industry cannot find a way to police itself in this area, Congress will. And you are not going to like it. Already, the chairman of the House Banking Committee and others in Congress have introduced legislation. And that would mean more regulatory burden.

Regulatory Burden — Public Policy Implications

Regulatory burden is not just your problem. It is everybody's problem. You do not bear alone the substantial costs of complying with regulation. We all pay costs in terms of the loans that are not made, and the economic growth that is foregone, because bankers must spend money on complying with laws and regulations that they could use to make loans or to provide other services. During his campaign last year, President Clinton promised the American people that when he occupied the White House the federal government would actively promote economic growth and development. I know the president, and I know he looks to the banking industry to play an important role in that effort. President Clinton came to office with the concern that some consumers — people who owned and operated small businesses, people and businesses in rural communities, people who lived in distressed communities in our cities — enjoyed less than full access to credit and other banking services.

The president perceived that a part of the problem of access to credit and other bank services was embedded in our system of banking regulation, more specifically, in excessive, duplicative, and ill-conceived regulations that sapped bank resources or that posed needless obstacles to lending. The president decided to address this problem by streamlining regulation. We are well underway in that effort.

As you know, last March President Clinton announced a program to remove regulatory impediments to small business lending. Here are just three of the more-than-a-dozen things we have already done. One, we have defined the "special mention" loan rating to make clear that loans in this category have no quantifiable inherent loss. Before making that point clear, some banks and some examiners treated "special mention" loans as if they were adversely classified. Because small- and medium-sized business loans often fall into this category, this had the effect of discouraging small business lending. Two, we have made it easier for bankers to finance sales of repossessed real estate to a larger number of creditworthy borrowers. And three, we have proposed changes in our real estate appraisal regulation that would, among other things, make it easier for small businesses to use real estate as collateral for loans.

At the OCC we are taking every regulation we have and subjecting it to rigorous, objective examination to eliminate the regulatory burdens and obstacles that impede banks from providing the greatest number of financial products and services to all, while maintaining safety and soundness.

As Comptroller of the Currency, I am committed to reducing the regulatory burden on banking whenever doing so is consistent with safety and soundness. I am committed to reducing the regulatory burden on banking because doing so will help to make credit more available. Expanding credit availability was one of my prime objectives the day I became Comptroller — and, in one form or the other, expanding credit availability has been my objective every day since.

Conclusion

I am committed to reducing unnecessary regulatory costs, but bankers must also do their part. I have heard a lot of complaints and suggestions, but actions speak

louder than words. Bankers must accept their fair measure of responsibility to police the causes of the burden: discrimination, deceptive practices, and disclosure. I am not talking now about complying with regulation; I am talking about making regulation unnecessary.

If bankers continue to create needs for new regulation, then my efforts to eliminate regulation are doomed. In the final analysis, to lighten the regulatory burden, bankers — not regulators — must set clear and credible standards for dealing with consumers. Everywhere. All the time.

Can it be done? It certainly can. Today there are industry standards on technical matters, standards on matters such as magnetic ink encoding to enable the electronic handling of checks. It took an effort to set such standards, but bankers set them because they saw the benefits of doing so.

The benefit from industry consumer protection standards — a reduced regulatory burden — is far clearer and far greater. I am pleased to note that — in the last several months your leadership has taken consumer protection standards to heart. And I have tried to make clear, by word and by action, my willingness to work with bankers to establish meaningful industry standards to protect the interests of the banking consumer, and in doing so to reduce regulatory burden. I need your help. Let us meet these issues head on — in conference rooms, not in hearing rooms. Let us work together.

Remarks by Eugene A. Ludwig, Comptroller of the Currency, before the Consumer Federation of America, on the future of banking and the role of consumer advocates, Washington, DC, December 3, 1993

Thank you and good morning. It is a pleasure to address this organization. I have the greatest respect for Stephen Brobeck, who, as co-author of *The Bank Book*, addressed the needs of thousands upon thousands of consumers of banking services. And I have enormous respect for a former executive director of this organization — Carol Tucker Foreman — whom I know well. Through the efforts of Steve Brobeck, Carol Foreman, and countless others, you have built a solid record of achievement in the interest of the consumer.

For example, in the last few years, CFA played an important role in focusing the public's attention on safety and soundness in the provision of banking services. To my mind, however, your greatest achievement is not a change in particular law or a shift in a particular policy. Rather, it has been the role CFA has played in channeling the consumer movement into the American mainstream. Anytime we demand value, or compare quality, or question sales practices in our personal business transactions, we are acting in a way that the CFA has long championed. Due in large part to the efforts of this organization, today we are all to some degree consumerists, whether we call ourselves that or not. That is a big change from the way most people approached the worlds of commerce and finance in 1967, when this organization first came together. And this transformation into a nation of consumerists has had major implications for the financial services industry.

Back in 1967, everyone knew what a bank was: a bank took in the public's savings as deposits and packaged them as loans. There were some exceptions to this rule — some of the larger banks in money centers like New York and Chicago engaged in more exotic functions, such as foreign exchange trading — but these exceptions were indeed rare.

Today, insurance companies and securities firms offer services that resemble what, 25 years ago, you might have found only at a bank — various types of credit, and, in some cases, reasonably safe investments for your savings. And when you go to a bank today, you may be shopping for a deposit or for credit, but you may also be shopping for a mutual fund investment, or for any of several kinds of insurance products.

These transformations are continuing. Lines that were once sharp are now blurry and getting blurrier.

What happened? Certainly advances in computer and communications technology enabled financial service providers to widen the menu of services they offer. But what drove the process was a new type of retail financial service consumer, a consumer whom inflation and, then, sharp interest-rate swings motivated to become financially savvy and aggressive. The financial services customer today is demanding, in terms of both services and service. There is much competition to meet consumer demands. If banks do not address these demands, some other type of institution will.

The blurring of these lines raises many important questions. I want to focus on just two of them here. First, what is the outlook for the banking industry in light of these changes? And second, how should consumer advocates respond to these changes?

The Future of Banking: A Fork in the Road

First, what is the outlook for the banking industry? I believe that, absent a significant change in course, the industry faces a dark future. The record profits banks are enjoying today seem likely neither to continue indefinitely nor to reverse the long, slow decline in the importance of banking relative to other financial services, a decline that has continued without interruption for two generations and that has accelerated sharply since 1980.

That long decline is a complex phenomenon. It has a lot of causes. The root cause may well be that other sectors of the financial services industry are better adapted to our modern economy than banks are. Someone observed not long ago that information-rich societies have markets, whereas information-poor societies have banks. The implication, of course, is that as modern technology democratizes the information market, the value added by banks gets smaller and smaller. I think there may be a lot to that idea, but other factors also enter in: government restrictions that have prevented banks from providing some of the products and services that have attracted consumers to other financial services providers and consumer protection laws that have imposed costs on banks that their competitors generally do not bear. Various flaws in the regulatory fabric — ineptitude in some instances, ineffectiveness in others, and in still other instances, overkill — also impose costs on banks that other financial services providers generally do not bear.

Whatever the causes, the bottom line is the same: banking no longer dominates the financial services industry. In fact, commercial banks today represent less than a third of the assets in the financial services industry. From 1982 to 1992, the commercial banking industry saw its share drop from 37 percent to 32 percent — in other words, it lost fully one-eighth of its market share. If you count both banks and thrifts, the decline for all depository institutions was even steeper — fully 10 percent.

These abstract statistics have real world implications. Whereas consumers, individuals as well as businesses, once looked to banks for products and services they could not obtain elsewhere, this is less and less true today. From the consumer perspective, banks and other types of financial services providers are increasingly interchangeable, offering substantially similar products and services in slightly different ways and with slightly different restrictions. Not much remains by way of products and services that consumers can get from banks and banks alone.

Now consider the implications for consumers if banks continue to decline. The deposit insurance safety net will cover less and less of consumer savings and investment, a shrinking proportion of financial transactions will be covered by bank consumer protection laws, and community reinvestment and other social responsibilities will be tied to a weaker and weaker industry.

The Role of Consumer Advocates

Against the backdrop of these trends, consumer advocates may well play an important part in shaping the industry's future, either to push the industry farther along in its slide toward marginality, or to arrest that slide and ensure that the industry remains a vital force in our economy. How you approach this issue will have important consequences — not just for the banking industry, but for consumers of financial services.

The secular decline of the banking industry is not just an interesting plot development in America's economic history. It is a public policy problem that deserves attention and concern from us all. Even though the differences between banks and other financial services providers are diminishing, and even though banks seem less and less able to reap competitive advantages from the differences that remain, the banking industry is still the leading provider of certain products and services that, from a public policy perspective, we care about. Banks are the leading providers of commercial and industrial credit. Good data are scant, but it is probably the case that banks are the leading providers of small business credit. And although we might all wish that there were more bank branches in low-income neighborhoods and that banks provided higher levels of consumer protection, other mainstream financial services by and large do not even have a presence in those neighborhoods and are virtually unregulated from a consumer protection standpoint.

During his campaign last year, President Clinton promised the American people that when he occupied the White House the federal government would actively promote economic growth and development. I know the president, and I know he looks to the banking industry to play an important role in that effort. And as Comptroller of the Currency, my job is to make sure that pointless or clumsy regulations do not interfere with the banking industry's ability to play that role. Part of that job entails looking hard at restrictions on the products and services banks can offer. Some of those restrictions, undeniably, are critical from a safety and soundness standpoint. But not all of them. Some, in fact, seem designed solely to protect non-bank financial services from competition.

I believe banks should be permitted to provide new products and services whenever two tests are met:

- One, the product or service must not threaten the safety and soundness of the banking industry. We have had enough problems with the deposit insurance funds to last us a while.

- Two, the product or service should benefit consumers. And by that I mean that allowing banks to provide it should increase the range of financial products or services available to consumers, or make it more convenient for consumers to obtain the product or service, or save consumers money, or otherwise meet important consumer needs. If a new bank product or service does one or more of these things and does not impair safety and soundness, I believe there is every sound public policy reason to let banks offer it. Accordingly, where a new power or innovation meets these tests and I have the authority to approve it, I will do so. And where I do not have that authority, I will support legislative change to permit the expansion.

I am taking the time to lay out for you the way I approach these issues, because I believe it is also the appropriate way for consumer advocates to approach these issues. In recent years, some consumer advocates have expressed concerns about new bank products and services. Those concerns are understandable. In part, they reflect recent experience with the integrity of the deposit insurance system. In part, they reflect legit-

imate questions about the adequacy of consumer protections if banks offer new products and services.

These are important concerns, and I share them. But we cannot afford to let these concerns paralyze us. Many products and services that banks might offer are virtually riskless. Consumer protection issues can be dealt with through sound, effective regulation and supervision. Rather than oppose interstate branching, which promises to bring the benefits of competition to many local markets where competition is now thin, or the sale of insurance by banks, which promises to increase the availability and perhaps lower the costs of insurance to millions of consumers, I hope that consumer advocates will support these initiatives and work with the Clinton Administration and the banking industry to ensure that these expansions of bank activities go forward in the manner that most greatly benefits American consumers of financial services and the American economy.

I know this approach will make some here today uneasy. Let me appeal to you to consider the alternative. If we draw the line — no new products, no new services, no new markets — we have every reason to expect the current rate of the industry's decline to continue. In another generation, at the current rate of decline, the banking industry will have dwindled to economic insignificance. Perhaps it will offer effective consumer protections, but not many consumers will deal with it. The overwhelming majority of retail transactions — home mortgages, consumer loans, investments — will involve nonbank financial service providers that are considerably less regulated and afford little in the way of consumer protections. This is like trying to achieve highway safety through the careful exercise of quality control in the buggy whip industry.

We cannot afford to let banks go the way of buggy whip makers. We must work together to find safe, responsible ways for banks to enter new lines of business and to find cost-effective ways of regulating the banking industry. Regulation, and especially consumer protection regulation, should be a source of competitive advantage to banks. Consumers need to understand that America's insured banks and thrifts alone offer completely safe investments in the form of interest-bearing deposits, provide the greatest support to their communities, and face the most rigorous requirements for equal opportunity in lending.

Let me give you an example. Many of you probably know that one of the fastest growing lines of business for banks is the retail sale of mutual funds. Sales of mutual funds are a good example of the sort of activity that I believe should be permitted for banks. The sale of mutual funds by banks raises few if any safety and soundness concerns. Moreover, consumers clearly benefit from the convenience of being able to purchase mutual funds from their banks.

At the same time, however, the sale of mutual funds by banks does pose consumer protection concerns. In particular, we must ensure that consumers fully understand that, just like other mutual fund investments, mutual funds sold by banks are not backed by federal deposit insurance.

One way to prevent this confusion is simply to keep banks from selling mutual funds. A better approach is to work with the industry to develop and issue guidance on bank sales of mutual funds and other retail nondeposit investment products. And that is exactly what we at the Office of the Comptroller of the Currency have done. The heart of the guidance we issued last July is a basic requirement for disclosure — simple and conspicuous notice to consumers that these products (1) are not insured by the FDIC; (2) are not obligations of the bank; (3) are not guaranteed by the bank; and (4) involve investment risks, including the possible loss of principal.

This guidance has received mixed reactions from the banking industry. But the responsible portion of the industry realizes that consumer protection requirements like these are in the industry's best interests — far preferable to prohibitions on mutual fund sales. To be sure, we have been having some problems with compliance. Recently, I used a major address to an industry conference to voice concern that some banks, including some that are major players in mutual fund sales, still are not making disclosures as conspicuously as our guidelines suggested. But I want to tell you here that other major bank players are undertaking serious efforts to make the kind of disclosure consumers should get. Those institutions deserve your recognition and support.

In the same spirit in which we put out our mutual fund guidelines — protection of the consumer — we will, within the next several weeks, address issues in the sale of insurance by national banks. We will identify a number of unacceptable practices. Although I do not believe such practices are common in the banking industry, some observers have identified them as potential abuses. I believe this is an area in which a modest amount of pro-active advice to the industry could forestall problems down the road.

I believe that if national banks follow our guidelines on mutual funds and if national banks follow our advice on insurance sales, the reward may be not just the approval of the regulator, but a growing reputation for fair dealing in the financial services marketplace and the

building of consumer confidence in the banking industry.

At the same time I want to stress that I simply will not accept deceptive practices and discrimination on the part of the national banking system. National banks should always practice full and fair disclosure so that consumers can make informed, and therefore, rational decisions. These are bedrock minimums.

I also believe that, as financial service providers blend into a financial services industry, you must work to ensure, first, that these bedrock minimums apply to all, and, second, that consumers are not made long-term losers by regulatory excesses that, over the long haul, tend to render less significant the only class of financial services providers that upholds a significant standard of consumer protection and extends a significant measure of support to our communities.

Ultimately, the important question is not whether it is fair to apply minimum standards of consumer protection to one class of financial institution and not to others. The important question is whether it is fair to protect the consumer served by one class of institution and not the consumers served by others.

Conclusion

I have covered much ground today because I want you to know exactly what I am doing and exactly why I am doing it. I want you to know because of my high regard for you. It is my strongly held belief that our interests are essentially the same in the area of banking services and that we should work together to achieve a better environment for the nation's consumers. This better environment must rest on banks providing products to consumers in a way that maximizes consumer well-being.

I had another, related purpose in speaking to you: to call for a partnership between CFA and other consumer groups and the OCC. As I have discussed, I have no doubt in my mind that the fundamental question for banking is not whether the business of banking will be widened, but how. You can help us answer that question, the question of "how."

CFA should work with us to encourage — not discourage — banks to meet consumer demands. Where banks meet the two-part test I discussed, they ought to be allowed to enter new lines of business. In working with us, CFA can make a unique contribution to the forging of sound safeguards, meaningful disclosures, and the high standards of integrity that will protect the consumer as banks modernize. In the end, we all will benefit.

Statement of Eugene A. Ludwig, Comptroller of the Currency, submitted to the House Committee on Banking, Finance, and Urban Affairs, on safety and soundness issues associated with derivatives activities, Washington, DC, December 3, 1993

A1. Does the OCC currently encourage or discourage national banks from setting up separately capitalized subsidiaries to engage in derivatives-related activities? Over the past several years, how many national banks applied to establish separately capitalized subsidiaries to engage in derivative-related activities? Has the OCC acted on those applications? Please explain the reasons the OCC approved or denied each application? Has the OCC encouraged banks to withdraw such applications?

The OCC has received and approved applications in the past five years from nine banks wishing to establish or expand consolidated subsidiaries that have separate capital and conduct derivatives-related activities.[1] The OCC approved the applications from those banks because establishment of the subsidiaries appeared to be consistent with prudent banking principles, was legally permissible, and conformed to OCC policy. These subsidiaries are only allowed to perform activities that can be carried out by the parent bank. Most of the applications were approved subject to certain conditions relating to the operations of the subsidiary and the investment of the parent in the subsidiary.[2]

The OCC does not believe that it is necessary for national banks to establish separately capitalized subsidiaries to engage in over-the-counter (OTC) derivatives activities. Some traditional banking activities, like some derivatives activities, involve risks that are significant and that require sophisticated risk management systems. Our concern is that banks successfully measure, monitor, and control the risks from those activities, whether they are conducted within the bank itself or in a separately capitalized subsidiary of the bank.

We also recognize, however, that some banks may prefer to conduct their OTC derivatives-related activities in separately capitalized subsidiaries. Under certain circumstances, a subsidiary can receive a credit rating that is higher than that of the parent bank. Because counterparty credit quality has become increasingly important in the OTC derivatives business, a higher credit rating would allow the subsidiary to conduct business with higher quality counterparties and engage in a greater volume of business than could the bank. This would allow the bank to improve its own risk management, the quality of its customer service, and its potential profitability. In addition, the bank would be able to use its capital more efficiently, improve its profitability, and possibly improve its liquidity due to the decreased need for collateral. The OCC has received only two applications from banks seeking to establish subsidiaries that were to be structured so that they would receive higher credit ratings than the parent banks. The banks decided to withdraw their applications before we acted on them.

We understand that an increasing number of nonbank financial institutions and foreign banks are considering the establishment of separately capitalized subsidiaries that would engage in OTC derivatives activities. Each of these subsidiaries would be structured to obtain a credit rating higher than that of the parent financial institution. Accordingly, we anticipate increased interest in such structures by national banks.

The OCC would consider any future applications from national banks wishing to establish such subsidiaries case by case. In each case, we would carefully consider the decreased availability of the subsidiary's assets to the FDIC in the event of failure of the parent bank, as well as the benefits such an arrangement could provide. The OCC would also carefully evaluate the financial and managerial soundness of the parent bank.

A2. How does a bank's credit rating affect its ability to provide derivatives products to its customers? How does a bank's credit rating affect its ability to perform market making functions in derivative products?

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[1] *In each of these cases, the banks have established or acquired operating subsidiaries that are either a Securities and Exchange Commission (SEC)-registered broker-dealer or a Commodities Futures Trading Commission (CFTC)-registered futures commission merchant to engage primarily in exchange-related derivatives activities. Those subsidiaries are engaged in one or more of the following activities: (1) providing brokerage and futures commission merchant services; (2) maintaining membership on exchanges and acting as a clearing member; (3) providing margin financing from a bank branch office; (4) engaging in securities lending by borrowing securities from third parties to re-lend to customers; and (5) holding seats on various exchanges to lease to trading customers.*

[2] *For example, such conditions limit permissible activities and the size of the bank's investment in the subsidiary, require the bank to establish written policies and internal controls and comply with applicable OCC guidance, prohibit the bank from acquiring a clearing house membership, and require the bank to seek OCC approval of certain changes in circumstances or expansion in activities.*

Ratings by nationally recognized statistical rating services have a significant influence on both the class of customers that are available to a bank and the terms under which its business may be conducted. This becomes a significant issue when a bank is rated lower than the equivalent of an AA rating from Moody's or Standard & Poor's. Many highly rated institutions will not engage in derivatives transactions with lower-rated counterparties. Others either limit transactions with lesser-rated entities, require significant credit enhancements, or require more favorable terms. When a highly rated customer chooses to conduct derivatives business with a lower-rated bank, the transaction may be executed on terms that provide pricing, payment, timing and collateral benefits to the higher-rated party. Indeed, when business is conducted between counterparties that have different ratings, or when one counterparty believes that the other counterparty may receive a lower rating in the future, it is not unusual for derivatives contracts to contain provisions that will permit the stronger counterparty to alter the contract terms in the event of a ratings downgrade.

A deterioration in a bank's credit rating affects its ability to function as a market maker in several ways: (1) by increasing the price it must pay to obtain a derivatives contract, (2) by forcing the bank to shorten the maturity of contracts, (3) by increasing the likelihood that the bank's attempts to secure contracts through the broker market will be rejected, and (4) by imposing collateralization requirements, and hence additional costs, on the bank.

A weak credit rating also affects a bank's ability to offset customer transactions, adversely affecting its ability to competitively price its customer's trades and complicating the bank's own risk management.

A bank can offset the negative effects of poor credit ratings on its derivatives business by conducting the business through a separately capitalized subsidiary of the bank. In those cases, rating services assign a higher credit rating to a well-capitalized subsidiary than to the parent bank. In some cases, the subsidiary's rating is as much as two rating classes higher than that of the parent bank.

In general, each separately capitalized subsidiary is individually evaluated by the ratings services. However, reflecting the market's belief that the FDIC may draw on the assets of the subsidiary in the event of failure of the parent bank, the rating services will probably continue to tie the (higher) rating of the subsidiary to the rating of the bank regardless of the capitalization of the subsidiary.

B1. What percentage of bank derivative transactions are arranged over-the-counter (OTC) as opposed to being arranged through an organized exchange? What percentage of bank OTC transactions are between market-makers versus OTC transactions between market-makers and their customers?

The information needed to answer this question on an industrywide basis is not available. OCC examiners surveyed the six national banks that we have identified as derivatives dealers and found that for those banks, on average, 79 percent of derivatives transactions are OTC, and the remaining 21 percent are exchange-traded.[3] From that same survey, our examiners found that, on average, 60 percent of the OTC derivatives transactions are between market-makers, and 40 percent are transactions between market-makers and their customers.

B2. What are the differences in the markets, and what special supervisory issues arise as result of the differences in the markets?

The markets for exchange-traded derivatives (futures and options) differ from OTC markets for derivatives instruments in several key respects. Futures exchanges provide a marketplace for trading standardized contracts and require the value of each position to be reconciled to the market, or marked-to-market, at the end of each trading day. Any change in value is paid to, or received from, the clearinghouse of the futures exchange (through its clearing members) at the end of each day. All futures market participants are required to post a performance bond (initial margin) by the opening of business on the day after the contract is established, equal to a certain percentage of the notional principal amount of the contracts. If the value of the position falls, causing the margin account to decrease below a pre-set maintenance level, the clearinghouse requires the contract holder to make payment to bring the margin account back up to the initial margin level. These features — standardized contracts, daily settlement of gains and losses, the role of the clearinghouse as counterparty to all trades, and the initial margin requirement — significantly reduce the counterparty credit risks of exchange-traded derivatives as compared to OTC derivatives. The latter are customized instruments that are individually negotiated and tend to have longer maturities and greater potential counterparty risk. OTC derivatives contracts do not contain standard margin requirements.

The relative growth of OTC derivatives markets in recent years has added a different dimension to sys-

[3] *Those six national banks account for 88 percent of the total outstanding derivatives contracts held by national banks, measured in notional amounts.*

temic risk in the U.S. and global banking system. As we stated in our response to the first set of the committee's questions, which we submitted on October 26, 1993, the OCC believes that the best defense against systemic risk is for each bank to implement effective risk management systems. Those systems should ultimately include limits and controls and the ability to actively monitor interconnection risk resulting from covariances between one or more risk factors. Banking Circular 277, which the OCC released on October 27, 1993, emphasizes the need for all banks to have risk management systems in place that are sufficient to measure, analyze, and control each of the risks arising from derivatives activities, and to have sufficient capital to absorb potential losses from those risks. The OCC plans to issue additional examiner guidance on these issues within the next few months.

B3. To what extent does your agency interface/cooperate with exchange officials (e.g., New York Stock Exchange, Chicago Board of Trade, etc.) associated with bank exchange-related activities?

From time to time, OCC officials have met with officials of various exchanges concerning issues related to bank exchange-related activities of mutual interest. For example, staff have met to discuss bank guarantees of subsidiary obligations arising from the subsidiary's exchange or clearing corporation membership, legal or regulatory constraints on exchange contract specifications or the contracts that may be brokered by the bank's subsidiaries, and the effect of bank involvement in equity index contracts on the 1987 stock market crash. We have not met frequently, but our encounters have been cooperative.

B4. To what extent does your agency interface/cooperate with the Commodities Futures Trading Commission (CFTC) and the Securities and Exchange Commission (SEC) related to bank derivatives activities?

Recent legislation has enabled the CFTC to exempt a number of bank derivatives transactions from the requirements of the Commodity Exchange Act, as amended. To promote interagency coordination, however, OCC staff have met frequently with CFTC staff members to discuss bank-related derivatives market activities and rulemakings. For example, we have had extensive discussions regarding OTC derivatives. To a lesser extent, we have met with CFTC staff to consult with them about their regulatory processes.

Our contacts with SEC staff on various securities and securities dealer issues are extensive. However, because the SEC has only limited jurisdiction over bank-related derivatives activities, we have had less contact with SEC staff regarding those issues.

B5. Please identify exchange-related clearing organizations, their function, and bank membership in clearing organizations. Who performs the exchange or clearing organization function in the OTC market?

Futures and options transactions are cleared through a variety of exchange-related clearing organizations, as indicated in the accompanying tables.

A futures exchange clearinghouse serves as the counterparty to each party engaging in a futures transaction conducted on an exchange. It tracks all the transactions that take place on the exchange during the trading day and then calculates the net position of each of its members at the end of each day. The clearinghouse guarantees the settlement of matched trades. It ensures that it can fulfill its guarantee function by requiring its members to maintain a margin account with the clearinghouse (the clearing margin). The margin account for each clearinghouse member is adjusted for gains and losses at the end of each trading day. In addition, clearing members generally are required to make a deposit to a guarantee fund, which further supports the obligations of the clearinghouse. Furthermore, clearinghouses generally have the authority to assess their nondefaulting members for losses arising out of the defaults of other clearing members.

The Options Clearing Corporation performs a similar function for the organized options exchanges. It guarantees that the option writer will fulfill its obligations under the terms of the options contract, and it records all long and short positions.

All options trades must be cleared through a clearinghouse member. Members are required to have a certain minimum amount of capital and to contribute to a special fund that can be used if any member defaults on an option obligation. The Options Clearing Corporation also requires its members to maintain margin accounts.

The OCC does not allow banks to be members of clearing organizations, because they would be required to pledge their capital to guarantee clearinghouse transactions. OTC derivatives transactions are customized, privately negotiated contracts. In general, each party to an OTC transaction assumes full responsibility for the performance of the contract. As the response to question B6 describes, participants in OTC markets often use legally enforceable netting agreements to reduce counterparty credit exposure.

Table 1

Futures Exchanges and Clearinghouses in the United States

Currently Active Futures Markets	Clearinghouses
Chicago Board of Trade	Board of Trade Clearing Corporation (BOTCC)
Chicago Mercantile Exchange (CME)	CME Clearing House Division
New York Mercantile Exchange (NYMEX)	NYMEX Clearing House Division
Commodity Exchange, Inc. (COMEX)	COMEX Clearing Association, Inc.
Coffee, Sugar & Cocoa Exchange	Commodity Futures Clearing Corporation of New York
New York Cotton Exchange	Commodity Clearing Corporation
New York Futures Exchange	Intermarket Clearing Corporation (ICC)
MidAmerica Commodity Exchange	BOTCC
Kansas City Board of Trade (KCBOT)	KCBOT Clearing Corporation
Minneapolis Grain Exchange (MGE)	MGE Clearing House Division
Philadelphia Board of Trade	ICC

Table 2
Options Exchanges and Clearinghouses in the United States

Options Markets	Clearinghouse
New York Stock Exchange	Options Clearing Corporation
Pacific Stock Exchange	Options Clearing Corporation
Philadelphia Stock Exchange	Options Clearing Corporation
Chicago Board Options Exchange	Options Clearing Corporation
American Stock Exchange	Options Clearing Corporation

B6. How do the parties to a derivatives contract ensure contract performance in the OTC market?

Unlike exchange-traded derivatives contracts, the performance of OTC contracts is not guaranteed by a clearinghouse. Therefore, participants in OTC markets perform normal credit analysis to determine whether credit enhancements are necessary prior to entering into transactions.

OTC market participants tend to customize their contracts to include specific arrangements for reducing the risk of nonperformance by their counterparties. Such arrangements vary with the specific risks associated with the counterparty, but can include the collateralization of transactions and the use of legally enforceable netting agreements. The International Swap Dealers Association (ISDA) has designed a master agreement for OTC contracts which includes a standard bilateral netting provision through which the parties to the contract agree to substitute one net payment obligation for mutual obligations to pay and receive on the same day. This minimizes the risk of nonperformance by reducing the amounts and number of payments due on any given date. The master ISDA form of agreement also includes negotiable provisions that permit the parties to determine in advance what rights and obligations default or early termination will trigger. A similar master agreement has been developed for foreign exchange transactions.

Market participants can also minimize the credit risk related to OTC contracts by avoiding concentrations with respect to a particular counterparty or type of counterparty.

Banking Circular 277 requires national banks to develop policies and procedures to implement such controls, in order to ensure performance of their OTC derivatives contracts. In particular, the circular states that national banks should: (1) have policies and procedures that address significant counterparty exposures, concentrations, and risk ratings; (2) determine that counterparties have the legal authority to enter into derivatives contracts; and (3) carefully evaluate the risks of entering into agreements that include early termination provisions clauses that would allow a counterparty to terminate an agreement upon deterioration of the bank's financial condition. The OCC will monitor national banks' compliance with this guidance during regularly scheduled examinations.

National banks will also be able to reduce the risk of nonperformance by entering into multilateral netting agreements, as those arrangements become available. In a multilateral netting agreement, as in the case of a clearinghouse for a futures or options exchange, participants settle all transactions that originate bilaterally through a central party or clearinghouse mechanism, which becomes the legal counterparty for each participant. Any loss associated with a default by a single member would be covered by the clearinghouse and/or its participants. Such agreements can provide a mechanism through which participants in the OTC market can actually ensure performance on derivatives contracts rather than simply reducing the risk of default. However, Banking Circular 277 requires that any such clearinghouse, organization, or facility meet the conditions set forth in the November 1990 *Report of the Committee on Interbank Netting Schemes of the Central Banks of the Group of 10 Countries* (known as the Lamfalussy Report).

C1. How many derivatives products (quantity and notional value) do dealer banks sell to their existing discretionary trust customers? nondiscretionary trust customers? What is the income from those transactions?

Banks do not report information on their call reports that would enable us to answer this question on an industrywide basis. Call report data reflect bank trust activity only to the extent that such activity generates fee income for the banks, and banks do not separately report the component of fiduciary fee income that relates to derivatives activity. (Banks with total assets of less than $100 million and with domestic offices only report their fiduciary fee income together with other nonfiduciary fee income. All other banks only report total fiduciary fees.)

We note that the Employee Retirement Income Security Act (ERISA) prohibits certain transactions between the bank or the holding company and the trust, i.e., when trust funds are pension plan assets of pension funds covered by ERISA.

C2. Are there any rules governing the sale of derivative products to a bank's discretionary or nondiscretionary trust customers?

OCC does not have specific rules concerning the sale of derivative products to a bank's trust customers. However, there are OCC rules that protect trust customers from the conflicts of interest that arise when a bank purchases any of its own assets, including derivative products, for its trust accounts.[4] Those rules apply

[4] *Such purchases are governed by 12 CFR 9.12(a), which provides:*

> *(a) Unless lawfully authorized by the instrument creating the relationship, or by court order or by local law, funds held by a national bank as fiduciary shall not be invested in stock or obligations of, or property acquired from, the bank or its directors, officers or employees, or individuals with whom there exists such a connection, or organizations in which there exists such an interest, as might affect the exercise of the best judgment of the bank in acquiring the property, or in stock or obligations of, or property acquired from affiliates of the bank or their directors, officers or employees.*

to all accounts for which a bank has the authority to make investments, or to give investment advice.

As noted above, ERISA prohibits certain transactions between the bank and the trust, i.e., when trust funds are pension plan assets of pension funds covered by ERISA.

In addition, Banking Circular 277 states that the credit officers responsible for establishing and approving financial derivatives credit lines should understand the applicability of financial derivatives instruments to the risks the bank customer is attempting to manage. This would include the bank's trust area acting in a fiduciary capacity.

C3. In your opinion, is it a conflict of interest for a bank to sell derivatives products to its discretionary or non-discretionary trust customers?

A conflict of interest arises when a bank purchases its own products, including derivatives products, for fiduciary accounts, i.e., those accounts for which it has investment responsibility or to which it gives investment advice or recommendations. The OCC regulation we cited in response to question C2 regulates such practice in a way that we believe reflects established principles of the law of trusts. Ensuring that banks comply with this regulation has been one of the main elements of OCC supervision of national bank fiduciary activities.

D1. To what extent do foreign banks act as a dealer in derivatives products in the United States?

D2. Do agencies and branches of foreign banks act as dealers of derivative products?

Data about the extent to which foreign banks act as dealers in derivatives products[5] in the United States are not available. However, some information on notional amounts of outstanding contracts for certain derivatives products is available. Table 3 lists the 25 U.S. and foreign-owned holding companies with the largest amounts of derivatives contracts, as measured by notional values. Three of those holding companies (marked with asterisks in the table) are U.S. subsidiaries of foreign entities.

In addition, some foreign banks' U.S. branches and agencies are active in derivatives markets, and a small number act as dealers.[6] Table 4 lists the 25 branches or agencies of foreign banks most active in derivative products, ranked by notional value of outstanding derivatives contracts. These branches or agencies hold notional values comparable to those of the middle third of the holding companies listed in Table 3.

Among the federal branches and agencies of foreign banks for which the OCC is the primary supervisor, only three branches out of 73 are derivatives dealers. Moreover, our examiners have found that in those three branches, the current volume of such direct dealing is relatively modest. The transactions in which these dealer branches of foreign banks currently engage include interest rate swaps, interest rate options, foreign exchange options, caps and floors, and Eurodollar futures.

Many agencies and branches of foreign banks operating in the United States are end-users of derivatives products. In general, they purchase derivatives products to enable them to better manage the asset and liability risks within their own businesses, including other offices of the bank.

D3. How important are foreign banks to the derivative products market in the United States?

Data that would enable us to determine the relative importance of foreign banks to the U.S. market are not available. Major foreign banks play a sizable role in derivatives product markets on a worldwide basis, however. Table 4 provides data on notional amounts of derivatives product holdings for many of the state and federal U.S. branches and agencies of foreign banks that are most active in derivatives markets.

D4. Is there adequate coordination with foreign bank regulators in the derivative area?

We believe that existing coordination among U.S. and foreign bank regulators on the full range of regulatory issues, including issues associated with bank derivatives activity, is adequate for regulating the risks associated with derivatives products. Coordination and communication among U.S. and foreign bank regulators has increased in recent years, partly in response to the expansion of, and innovation in, derivatives markets.

Such coordination occurs through formal organizations, including the Bank for International Settlements and the

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[5] *As stated in the October 26 response, the OCC considers an entity to be a derivatives dealer when it takes on principal risk and actively provides market liquidity through price quotes both to customers and other dealers.*

[6] *These are in addition to the 10 U.S.-chartered commercial banks that were identified as dealers in the October 26 response.*

Table 3
Holding Companies Most Active in Derivatives Contracts
(June 30, 1993 data, notional amounts, millions of dollars)

Rank	*Holding Company Name*	*State*	*Assets*	*Total Drivatives*	*Total Futures & Forwards*	*Total Swaps*	*Total Options*
1	Chemical Banking Corporation	NY	$145,522	$2,117,385	$1,245,500	$554,257	$317,628
2	Bankers Trust New York Corporation	NY	83,987	1,769,947	816,740	355,597	597,610
3	Citicorp	NY	216,285	1,762,478	1,207,132	264,811	290,535
4	J.P. Morgan & Co. Incorporated	NY	132,532	1,550,680	572,897	579,219	398,563
5	Chase Manhattan Corporation	NY	99,085	1,125,075	666,150	258,086	200,839
6	BankAmerica Corporation	CA	185,466	899,783	581,034	229,926	88,823
7	First Chicago Corporation	IL	49,936	452,780	276,790	100,666	75,324
8	Continental Bank Corporation	IL	22,352	170,052	61,058	52,953	56,041
9	Republic New York Corporation	NY	36,205	164,979	81,707	45,504	37,768
10	Bank of New York Company, Inc.	NY	41,045	91,434	65,128	12,200	14,106
11	Bank of Boston Corporation	MA	32,766	69,479	49,254	9,092	11,133
12	First Union Corporation	NC	71,959	63,794	17,867	11,672	34,255
13	NationsBank Corporation	NC	124,385	47,490	12,832	30,574	4,084
14	Mellon Bank Corporation	PA	36,209	37,122	22,834	11,552	2,736
15	Banc One Corporation	OH	75,413	32,289	2,610	29,349	330
16*	Bankmont Financial Corp.	NY	16,990	32,107	21,293	2,425	8,388
17*	NatWest Bank Corporation	NY	23,681	29,755	7,717	10,225	11,813
18	State Street Boston Corporation	MA	18,170	23,785	23,082	600	103
19	PNC Bank Corp.	PA	53,317	20,965	786	8,401	11,778
20*	Marine Midland Banks, Inc.	NY	16,736	15,773	7,055	8,718	0
21	Wells Fargo & Company	CA	51,329	15,353	5,354	2,953	7,045
22	Shawmut National Corporation	CT	25,892	14,929	8,408	814	5,707
23	Signet Banking Corporation	VA	12,052	14,011	3,032	2,633	8,346
24	First Interstate Bancorp	CA	49,488	12,964	1,304	8,166	3,494
25	Fleet Financial Group Inc	RI	44,871	12,599	6,733	4,861	1,006
	Top 25 Holding Companies			10,547,006	5,764,297	2,595,254	2,187,455
	Other 190 Holding Companies			174,959	57,300	85,243	32,416
	Total Notional Amount for All Holding Companies			10,721,965	5,821,597	2,680,497	2,219,871

*Companies with over 50% foreign ownership.
Note: Table includes data for companies with total assets of $150 million or more, or with more than one subsidiary bank.
Source: Consolidated Financial Statements for Bank Holding Companies (FR Y-9 C) Schedule HC-F

Table 4

State and Federal U.S. Branches and Agencies of Foreign Banks Most Active in Derivatives Contracts
(June 30, 1993 data, notional amounts, millions of dollars)

Rank	Bank Name	Assets	Total Derivatives	Total Futures & Forwards	Total Swaps	Total Options
1	Industrial Bank of Japan, Ltd.	$23,177.5	$196,181.9	$92,747.9	$73,108.5	$30,325.5
2	Mitshubishi Bank, Ltd.	33,021.7	164,622.4	118,515.2	44,192.3	1,914.9
3	HSBC Holdings PLC	6,812.5	155,039.6	76,906.7	72,427.0	5,705.9
4	Credit Lyonnais	23,202.9	148,092.3	9,780.1	83,376.8	54,935.4
5	Fuji Bank Limited	27,683.4	138,953.9	10,726.0	121,148.2	7,079.7
6	Tokai Bank, Limited	8,583.3	137,565.6	23,024.3	113,128.3	1,413.0
7	Sanwa Bank, Limited	26,695.0	123,434.9	4,256.1	83,597.2	35,581.6
8	Westpac Banking Corp.	3,820.0	89,490.4	25,915.1	47,574.9	16,000.4
9	Yasuda Trust and Trust and Banking Co.	10,074.0	87,326.6	60,866.1	24,800.5	1,660.0
10	Swiss Bank Corp.	17,468.4	84,359.9	34,296.9	9,263.8	40,799.2
11	Compagnie Suez	7,519.5	65,342.6	12,229.5	40,786.4	12,326.6
12	Deutsche Bank Aktiengesellschaft	4,965.0	64,394.8	8,220.0	55,754.0	420.8
13	Societe Generale	22,379.2	61,815.4	18,075.0	42,282.3	1,458.1
14	Sumitomo Trust & Banking Co., Ltd.	8,548.1	57,977.2	45,553.0	11,832.0	591.5
15	Bank of Tokyo, Ltd.	20,086.2	53,822.8	2,971.4	36,377.2	14,474.3
16	Sumitomo Bank, Ltd.	20,365.2	49,730.3	4,355.5	40,905.5	4,469.3
17	Canadian Imperial Bank of Commerce	9,891.7	45,341.8	36,667.4	8,544.4	130.0
18	Royal Bank of Canada	5,058.7	42,019.7	20,928.4	14,011.3	7,079.0
19	Toronto-Dominion Bank	4,695.9	35,014.6	8,249.0	22,084.5	4,680.2
20	Mitsui Trust and Banking Co., Ltd.	7,718.9	34,927.4	5,327.0	27,900.4	1,700.0
21	Union Bank of Switzerland	14,783.6	34,188.7	24,973.4	6,673.7	2,541.6
22	Nippon Credit Bank, Ltd.	7,199.6	32,766.5	15,270.5	13,583.3	3,912.6
23	Sakura Bank Ltd.	14,860.9	32,694.4	5,319.0	17,320.3	10,055.1
24	A.B.N. - Stichting	13,867.9	31,596.6	16,263.8	13,109.9	2,222.9
25	Mitsubishi Trust and Banking Corp.	11,787.3	29,114.4	4,252.8	23,136.9	1,724.7
	Subtotal for Top 25	$354,266.4	$1,995,814.7	$685,690.1	$1,046,919.6	$263,202.3
	Subtotal for All Derivatives Users (N = 164)	$665,148.6	$2,316,403.5	$796,301.3	$1,226,645.2	$293,455.9
	Grand Total (N = 272)	$689,589.4	$2,316,403.5	$796,301.3	$1,226,645.2	$293,455.9

Note: U.S. branches and agencies consolidated by parent company.
Source: Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks (FFIEC 002)

Basle Committee on Banking Supervision,[7] as well as through informal channels, such as bilateral and multilateral meetings and dialogues among regulators, and training programs and technical assistance activities that the U.S. regulators provide to foreign bank supervisors.

The OCC occasionally shares supervisory information with foreign supervisors, in the context of the authority (and related controls and restrictions) given in Section 206 of the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA).

E1. For the top 10 bank derivatives dealers for the past five years, please provide trading assets and trading income.

E2. For those same banks over the same time period, what percentage of each bank's assets are trading assets and what percentage of income is derived from trading profits?

Table 5 reports trading asset information for each of the 10 U.S.-chartered commercial banks that are dealers in derivatives products. Please note, however, that trading assets are not reliable indicators of derivatives product activity — they include many assets that are not derivatives products, and some derivatives-related entries are reported in other balance sheet accounts.

Table 6 reports trading revenue information for each of those 10 banks. We have defined trading revenue as the sum of interest income from assets held in trading accounts, gains (losses) and fees from assets held in trading accounts, and trading gains (losses) and fees from foreign exchange transactions.

The table reports the percentage of gross revenue that each bank earns from its trading activities, including its derivatives activities. Data on trading profits are not available because banks do not report expenses by product line. Also, derivatives product activity is reflected in several income statement accounts, including interest income, interest expense, trading gains (losses) and fees from foreign exchange transactions, all other noninterest income, and other noninterest expense. Those accounts do not report derivatives activity separately or exclusively.

The data we report in Tables 5 and 6 have not been restated to reflect mergers or acquisitions.

E3. To what extent are there legal and physical barriers erected between bank proprietary trading activities and a bank's customer-related derivatives activities?

Many national banks that engage in OTC derivatives transactions as dealers with their customers also engage in a relatively small volume of proprietary trading.[8] The OCC does not require national banks to erect any legal or physical barrier between the two functions, or between customer transactions and any other trading activity of the bank in foreign exchange, precious metals, or government securities.

The OCC believes that national banks can safely carry out both functions in the same department, provided that the bank has appropriate systems and controls in place. Banking Circular 277 emphasizes that dealer banks should have or implement proper systems and controls to manage both functions in a safe and sound manner. For example, that circular states that the bank officers responsible for establishing and approving financial derivatives credit lines should understand the applicability of financial instruments to the risks the bank customer is attempting to manage.

The OCC will continue to review banks' systems and controls during on-site examinations, and our examiners will take appropriate action if the structure or management of a bank's derivatives department raises any specific concerns or conflicts.

A few banks have established or acquired operating subsidiaries that are SEC-registered broker-dealers or CFTC-registered futures commission merchants, to engage primarily in exchange-related derivatives activities. Such operating subsidiaries are subject to SEC and CFTC rules designed to protect against conflicts of interest between transactions executed on behalf of the subsidiaries and their affiliated parties (included affiliated bank) on the one hand, and transactions executed on behalf of their customers on the other hand.

E4. In trading for their own proprietary accounts, to what extent do dealer banks use information gleaned from customer-related derivatives activities?

Bank dealers use information they gain from observing customer transaction flows to develop views on major

[7] *The Basle Committee is evaluating the credit exposures arising from bank derivatives positions in conjunction with the calculation of a bank's risk-based capital. As described in the October response, the OCC is also participating in the efforts of the Basle Committee to develop revised capital requirements for the market risk in banks' trading portfolios and foreign exchange activities. The Basle Committee released consultative papers on those efforts in April 1993.*

[8] *As stated in the October 26 response, for the six national banks that are dealers in derivatives products, approximately 90 percent of their derivatives activities are customer-related. Approximately 10 percent are transactions that are entered into for the bank's own risk management, which includes both position-taking (i.e., proprietary trading) and risk reduction activities.*

Table 5
Trading Assets of the 10 U.S. Commercial Banks that Deal in Derivatives

Dollar Volume (in millions)						
Bank Name	*1988*	*1989*	*1990*	*1991*	*1992*	*1993Q2*
Chemical Bank	$2,936	$ 595	$ 1,614	$ 1,516	$ 2,797	$ 6,142
Bankers Trust	7,173	13,814	14,901	21,196	23,365	26,758
Citibank	5,846	5,957	5,511	10,359	14,842	15,303
Morgan Guaranty	2,893	3,193	5,230	10,487	18,097	26,311
Chase Manhattan	2,527	2,744	1,638	2,260	4,097	3,858
Bank of America	1,392	1,037	1,438	3,178	3,238	5,000
First NB Chicago	560	573	984	1,192	1,807	2,374
Continental	1,659	1,447	1,405	1,552	994	1,457
Republic	192	324	113	269	638	698
Bank of New York	48	316	109	914	347	870

Percent of Total Assets						
Bank Name	*1988*	*1989*	*1990*	*1991*	*1992*	*1993Q2*
Chemical Bank	5.8	1.3	3.4	3.1	2.6	5.6
Bankers Trust	3.0	27.0	27.8	40.2	41.9	41.9
Citibank	3.9	3.7	3.5	6.4	9.1	9.1
Morgan Guaranty	4.1	4.9	7.6	13.3	23.6	25.4
Chase Manhattan	3.3	3.3	2.1	3.0	5.5	4.8
Bank of America	1.7	1.2	1.5	3.2	2.4	3.7
First NB Chicago	1.6	1.6	2.7	3.7	5.7	7.0
Continental	5.4	4.9	5.3	6.5	4.5	6.6
Republic	1.0	1.5	0.5	1.1	2.1	2.5
Bank of New York	0.2	0.7	0.3	2.5	1.0	2.4

Source: Call Reports. The data have not been restated to reflect mergers or acquisitions.

Table 6
Trading Revenue of the 10 U.S. Commercial Banks that Deal in Derivatives

Dollar Volume (in millions)						
Bank Name	*1988*	*1989*	*1990*	*1991*	*1992*	*1993Q2*
Chemical Bank	$ 550	$ 524	$ 667	$ 533	$ 894	$ 692
Bankers Trust	1,030	1,549	2,268	1,958	1,790	1,091
Citibank	3,133	1,820	1,993	2,101	2,968	2,025
Morgan Guaranty	562	673	1,167	1,800	2,266	1,327
Chase Manhattan	478	534	466	428	663	393
Bank of America	291	323	431	590	686	414
First NB Chicago	272	273	335	257	302	385
Continental	129	207	216	111	85	61
Republic	72	78	101	110	137	94
Bank of New York	18	103	87	119	138	60

Percent of Gross Revenue						
Bank Name	*1988*	*1989*	*1990*	*1991*	*1992*	*1993Q2*
Chemical Bank	9.5	9.7	13.0	11.3	9.1	14.3
Bankers Trust	8.3	23.3	34.1	36.1	36.1	38.3
Citibank	13.5	6.7	7.3	9.5	12.6	16.5
Morgan Guaranty	8.6	8.9	15.1	23.6	29.6	33.7
Chase Manhattan	5.0	5.0	4.6	5.3	8.4	9.3
Bank of America	3.2	3.2	3.9	5.5	5.7	6.9
First NB Chicago	7.9	7.1	9.1	9.2	13.4	28.7
Continental	4.2	6.3	7.1	4.7	5.0	7.2
Republic	4.2	3.6	4.9	6.0	8.2	11.5
Bank of New York	0.9	2.1	1.8	3.4	4.7	4.2

Source. Call Reports. The data have not been restated to reflect mergers or acquisitions.

market movements. Such information is important to dealers and may allow them to operate more effectively.

However, a bank's derivatives customers may not be any more prescient than the bank regarding future market movements, so any information gleaned from customer transactions may be of limited use to the bank. Furthermore, each customer's circumstances are unique and may not be driven by the customer's opinion about general market movements. Thus, a customer purchase of a particular product or set of products would not necessarily indicate the customer's opinion about market movements. In this case, following the customer's lead would not necessarily serve the bank's proprietary trading objectives.

F1. Please comment on the feasibility and implications of levying a tax on speculation-related derivative transactions.

Derivatives activities, like many other banking activities, have the potential for imposing costs on the banking system that are not borne by the bank undertaking the activity. This can happen in either of two ways. Flat-rate deposit insurance can shift some of the risk inherent in the activity to the federal deposit insurer. Or, the activity may give rise to systemic risk: losses to the bank undertaking the activity may trigger additional losses at other banks. The purpose of levying a tax on derivative transactions — or any other risky activity — would be to ensure that banks take these costs into account when making portfolio decisions.

There is no need, however, to establish a separate mechanism for taxing derivatives or other risky activities. The current risk-based system of capital regulation is designed to make banks bear the cost of their own risk-taking. As the October 26 response stated, the OCC's current capital standards address risks arising from derivatives activities through a combination of explicit regulatory minimum capital standards and evaluations of a bank's capital adequacy through the examination process. Furthermore, under the current system of risk-based deposit insurance, an institution that undertakes a riskier activity will either have to increase its capital, or face an increase in its insurance premiums.

Statement of Eugene A. Ludwig, Comptroller of the Currency, submitted to the House Committee on Banking, Finance, and Urban Affairs, on safety and soundness issues associated with derivatives activities, Washington, DC, December 23, 1993

1. Mr. Baker is concerned about a provision in Section C.1 of Banking Circular 277 that he believes creates a "look before you leap" concept that goes a little too far "by requiring the bank board to document that they are not guilty in the event the acquirer [of the derivative] later suffers a loss as a result of that purchase." Mr. Baker believes that, as a result, bank directors or bank officers may be held responsible for losses of third parties or for profit opportunities that are missed by third parties because the third party was dissuaded from a transaction.

Mr. Baker believes that individuals should be allowed to make their own assessment of risk based upon prepurchase and presettlement disclosures, rather than have a regulatory policy saying that any product is not suitable.

Section C.1 of the OCC's Banking Circular 277 states that bank credit officers should be able to identify if a proposed derivatives transaction is consistent with a counterparty's policies and procedures for derivatives activities, as they are known to the bank. Section C.1 goes on to state that credit officers should be able to analyze the impact of the proposed derivatives activities on the customer's financial condition and should understand the applicability of financial derivatives instruments to the risks that the customer is attempting to manage.

This provision is a reasonable part of guidance to banks selling over-the-counter financial derivatives instruments. Over-the-counter transactions are custom-tailored to the individual customer's financial position and its specific risk-management objectives. Evaluating the customer's trading policies, financial situation, and risk profile is an integral part of structuring a derivatives contract that meets the customer's needs.

The OCC's guidance recognizes that buyers of over-the-counter financial derivatives instruments need to possess some degree of sophistication in order to understand those transactions. Most end-users of financial derivatives instruments are sufficiently sophisticated to understand the appropriateness of a particular transaction for its risk management purposes. Section C.1 provides an added measure of assurance in this regard by recognizing the obligation of bank dealers to assess their clients' sophistication and their understanding of the derivatives transactions that they propose to enter into.

Furthermore, a customer's ability to perform in a derivatives transaction depends, in part, on the appropriateness of the transaction to the customer's financial situation and its business practices and objectives. Banking Circular 277 provides guidance to the bank's credit officers who establish the credit lines of individual customers. In this respect, it is broadly analogous to the responsibility of credit officers to evaluate a borrower's ability to repay before making a traditional bank loan.

Banking Circular 277 does not prohibit a bank from carrying out a transaction that it believes may be inappropriate for a particular customer. In such circumstances, the circular requires only that the bank document its own analysis and the information provided to the customer. The ultimate decision is left to the end-user based upon the disclosures it receives and the discussions it has with the bank. Thus, OCC policy stops short of establishing a suitability standard that would be analogous to the standard that applies to the sale of securities by securities dealers.

It is conceivable that a customer who has been discouraged from purchasing a financial derivatives instrument could seek damages for forgone gains. The likelihood of consumer complaints is certainly no greater in these circumstances, however, and probably much less, than if it had failed to warn the customer and the customer subsequently lost money on the transaction.

2. Seeing a possible need for further legislation, Mr. Baker would like to know where, under current U.S. Code, master netting agreements may not be legally enforceable and where correction in the Code may be required.

The enactment of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and the 1990 amendments to the Bankruptcy Code have brought near-certainty on the issue of the enforceability of bilateral close-out netting arrangements with respect to various financial derivatives instruments in the insolvency proceedings of U.S. counterparties. The provisions of FIRREA established,

among other things, the enforceability of the netting provisions of master agreements with respect to "qualified financial contracts" (as that term is broadly defined) in the insolvency proceedings of an insured depository institution. Subsequently, the 1990 amendments to the U.S. Bankruptcy Code extended to "swap agreements" (also broadly defined) the protections of avoidance of (i) "cherry-picking" by a trustee in bankruptcy and (ii) the "automatic stay" upon the filing of a petition in bankruptcy, both of which had previously been afforded to forward contracts. Finally, sections 401-407 of FDICIA validated the netting of bilateral and multilateral payment obligations by and among "financial institutions" (as that term is defined therein and by regulation of the Federal Reserve Board) pursuant to a netting contract.

Notwithstanding the above-referenced changes, various commentators have noted that there is some uncertainty regarding the enforceability of netting arrangements.[1] This uncertainty exists primarily with respect to transactions that are not enumerated within the definition of "swap agreement" for purposes of the Bankruptcy Code and FIRREA (such as spot foreign exchange agreements and equity derivatives),[2] and for which the netting provisions of FDICIA are not applicable.[3] Unlike FDICIA, where the definition of "netting contract" is not tied to any particular transactions, the definitions of "swap contract" under FIRREA and the Bankruptcy Code are tied to a set of enumerated transactions and "any other similar agreement."

Although one could argue that transactions such as spot foreign exchange contracts and equity derivatives are "other similar agreements" for purposes of the definition of "swap agreement" under FIRREA and the Bankruptcy Code, we are not certain that such an argument would prevail in court. It should be noted, however, that at least one law firm has concluded that if such transactions are not considered "swap agreements," then they would be considered either "forward contracts" or "securities contracts," which are provided with treatment similar to that of "swap agreements" under FIRREA and the Bankruptcy Code.[4]

The uncertainty that arises with respect to the definition of "swap agreement" increases where transactions that qualify as a swap agreement are documented under a single master agreement with transactions that do not qualify as swap agreements. As one legal commentator has noted:

> Sections 362(a)(7) and 553 of the U.S. Bankruptcy Code . . . could delay the ability of a party to net across product types once . . . final net amounts owed by or to a counterparty are reached for the swap agreements, forward contracts, and securities contracts documented under a master agreement since those Sections stay the set-off of mutual debts after the commencement of a bankruptcy case, and there is no applicable exception to the automatic stay that would allow the set-off against each other of amounts owed under these three types of transactions. . . .
>
> If a derivatives dealer reaches the point where it has determined that three net amounts are owed by or to a counterparty and that the operation of the automatic stay is delaying further set-off, then uncertainty exists whether a master agreement under which swap agreements, forward contracts, and securities contracts are documented should be treated as one agreement so that a court would give effect to the close-out termination provisions of such master agreement to reach one net number either owed to or by the non-bankrupt party.[5]

Similarly, under FIRREA, a dealer may face the risk of selective repudiation among separate qualified financial contracts if it does not persuade a receiver or conservator that all transactions under a master agreement are "swap agreements." This risk may be diminished, however, if the master agreement contains a provision that provides a basis for terminating all transactions under the master agreement if there is an attempt to repudiate any of the transactions documented thereunder.

Based on the uncertainty that remains with respect to netting arrangements, notwithstanding the improvements made by FIRREA, FDICIA, and the 1990 amendments to the Bankruptcy Code, the OCC believes it would be useful to conform these various netting standards to a single standard. The object would be to confirm that parties to a master agreement may close-out and promptly terminate a master agreement under

[1] *See, e.g., Cravath, Swaine & Moore, "Enforceability Survey — United States,"* Derivatives: Practices and Principles —Appendix II: Legal Enforceability: Survey of Nine Jurisdictions, *pp. 291-313, published by the Group of Thirty, Washington, DC (July 1993) and Grosshandler. "Insolvent Counterparties: Too Hot To Handle — United States,"* International Financial Law Review, *pp 22-23 (October 1992).*

[2] *See 11 U.S.C. 101(55) and 12 U.S.C. 1821(e)(8)(D)(vi), respectively.*

[3] *Such as, for example, where one or both of the counterparties are not "financial institutions."*

[4] *Group of Thirty Survey, p. 304.*

[5] Ibid.

which not only "swap agreements" but also "securities contracts," "forward contracts," and similar agreements are documented. Such a change would be consistent with Congress's most recent legislation on netting in FDICIA, which did not tie the validation of "netting contracts" to any particular type of transaction.

Interpretations—October 1 to December 31, 1993

Interpretive Letters

632—June 30, 1993

We are writing in response to your request for confirmation from the Office of the Comptroller of the Currency (the OCC) that it is legally permissible for a national bank to hedge the financial exposure arising from otherwise permissible banking activities in markets that involve physical delivery of commodities and that, in connection with such hedging activities, a national bank may make or take physical delivery of commodities, transfer or receive transfer of documents of title, and engage in other activities incidental thereto.

For the reasons discussed below and subject to the limitations described herein (including that any physical hedging activity is used only to supplement a bank's existing hedging activities, constitutes only a nominal percentage of a bank's hedging activities, is used only to reduce risks arising from an otherwise permissible banking activity, and is customer driven and not for speculative purposes), the OCC has concluded that such physical hedging activity is legally permissible for national banks. Given the potential additional risks associated with physical hedging activities, however, the OCC would not permit a national bank to engage in such activities unless it determines that the bank has the management and controls necessary to ensure that such activities are carried out in accordance with safe and sound banking practices. Therefore, the OCC will require any national bank desiring to engage in physical hedging activities to present a detailed plan to the OCC and to obtain the prior written authorization of the OCC's supervisory staff before engaging in such activities. We note that the state banking department has already approved the bank engaging in these activities.

Background

The bank's request was submitted to the OCC in connection with section 303 of the Federal Deposit Insurance Corporation Improvement Act of 1991, 12 U.S.C. 1831a, which provides that beginning on December 19, 1992, an insured state-chartered bank may not engage as principal in any type of activity that is not permissible for a national bank, except as provided therein. We understand that the bank has also applied to the Federal Reserve Bank pursuant to Regulation H of the Board of Governors of the Federal Reserve System, seeking authorization to continue as well as commence various commodity-linked activities, and to engage in physical hedging activities. We express no view as to whether the bank's proposal to engage in physical hedging activities is permissible under Regulation H.

In support of its request, the bank has represented that it is currently engaged in various commodity-linked transactions involving certain commodities. These activities consist of making loans, taking deposits, and issuing debt instruments having terms measured in relation to commodity prices or to a commodity price index (or indices), or measured in relation to various financial or economic indices, whether existing now or in the future; and entering into swap, forward, and options transactions having such terms, or any combination thereof, in order to assist the bank's clients in managing their financial exposures.

In order to hedge the market risk arising from these activities, the bank generally enters into exchange-traded and over-the-counter cash-settled transactions such as exchange-traded futures and options contracts and over-the-counter spot, forward, and option contracts. The bank has advised us that in a limited number of instances such cash-settled transactions may not provide the most accurate and precise hedge possible. In such instances, the bank would like to enter into exchange-traded and over-the-counter transactions which would be physically settled. In connection with the foregoing, the bank may be required, from time to time, to make or take physical delivery of a commodity underlying any such transactions. The bank has indicated, however, that it currently intends only to transfer or receive transfer of documents evidencing title to the underlying commodities, such as warrants issued by exchange-accredited warehouses.

The bank wished to gain access to the physical markets in order to supplement its existing hedging activities so that it would be able more accurately and effectively to manage and reduce the market risk arising from its commodity-linked transactions on a portfolio basis,[1] and to remain competitive and profitable with respect to the commodities-linked services it offers. Because it does not currently have access to the physical markets, the bank is often forced to hedge its risks by using

*Interpretive letters reflect the views of the Comptroller's legal staff. Trust interpretations reflect the views of the Compliance Management Department.

[1] Under this approach, a bank hedges the commodities price risk in a portfolio of commodity-linked transactions involving the same commodity, or closely related commodities, based on the aggregate unmatched position in the portfolio. As commodity-linked transactions are added to the portfolio resulting in changes to the unmatched position, the bank will adjust its hedge to eliminate its exposure to commodities price risk. *See* Letter from Horace G. Sneed, Senior Attorney, Legal Advisory Services Division (March 2, 1992) (unpublished).

hedging instruments which may provide less than accurate hedges, thereby resulting in what is known as "basis risk," i.e., the risk that the price fluctuations of the hedging instrument will not exactly match the price fluctuations of the underlying transaction.

Basis risk can arise in a variety of ways including a mismatch between the hedge and the underlying transaction relating to the type of commodity involved and the geographic location of such commodity. Such mismatches, and thus the resulting basis risk, tend to become more pronounced progressively during the life of the transaction thus making accurate hedging essential. This is because in many instances the differences between the price of a raw commodity and the aggregate value of the products produced from such commodity are, in the short term, sensitive to movements in the spot prices of the raw commodity and the refined products. Accordingly, in the short term, e.g., during the last six months of the term of the underlying transaction, a small change in the spread may result in a significant change in the value of a hedge. The bank believes that if it had access to the physical markets, it would be able to have more accurate and precise hedges and its basis risk would be substantially reduced in certain instances.

The bank also believes that access to the physical markets would reduce its basis risk by providing a degree of liquidity that may exceed the liquidity offered by the futures markets or the cash-settled markets.

The bank also maintains that its inability to hedge its risks in the physical markets has placed it at a competitive disadvantage by causing the bank to refrain from entering into many commodity-linked transactions with its clients, preventing it from offering competitive prices to its clients, adversely affecting its existing commodity-linked activities and causing it to incur additional costs.

To the extent that it may take or make physical delivery of a commodity or transfer or receive transfer of a document evidencing title to a commodity, the bank may need to engage in other activities that are incidental to such physical delivery or transfer. For example, the bank may need to store any such commodity, transport it from one destination to another, or obtain or dispose of the commodity. The risks associated with the physical delivery of commodities and the activities that are incidental to physical delivery and transfer include credit risk, risk of nondelivery due to *force majeure*, storage risk, transportation risk, and quality and quantity risk.

The bank has stated that it has developed methods of managing such risks, which include establishing credit lines with counterparts; using appropriate storage facilities and means of transportation which are owned and operated by entities selected on the basis of experience, reputation, safety record, adequate insurance, and creditworthiness; using independent inspectors to inspect and determine the quality, quantity, and other specifications of the commodity involved in the transaction; refraining from using any means of transportation or storage that is owned by the bank for the purpose of transporting, storing, or delivering commodities, and obtaining appropriate levels of insurance. The bank will also manage the risks associated with the physical delivery of commodities by using its experience in trading precious metals and its risk management procedures established in connection therewith, as well as relying on the knowledge and expertise of professionals experienced in the types of commodities of which the bank will take physical delivery.

Legality of Proposed Activities

The authority of national banks to physically hedge the risks arising from their commodity-linked activities is supported by existing precedent, and thus constitutes a permissible banking activity, subject to supervisory concurrence, and provided the activity is conducted in accordance with safe and sound banking practices.

The National Bank Act provides, in pertinent part, that national banks shall have the power:

> To exercise. . . all such incidental powers as shall be necessary to carry on the business of banking; by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security; and by obtaining, issuing, and circulating notes according to the provisions of title 62 of the Revised Statutes.

12 U.S.C. 24(Seventh). Although neither engaging in commodity-linked transactions nor hedging the risks arising from such transactions is among the enumerated powers of Section 24(Seventh), the OCC has rejected a narrow view of the bank powers clause which would interpret the act as granting to national banks only the five specified powers and such ancillary powers needed to perform those five. *See* Interpretive Letter No. 494 (December 20, 1989) *reprinted in* [1989-1990 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,083. Rather, the OCC views the bank powers clause of Section 24(Seventh) as a broad grant of the power to engage in the business of banking, including the five specifically recited powers and such other powers that are reasonably necessary to perform not just the specifically enumerated powers but the business of

banking as a whole.[2] The business of banking is comprised of all those powers which are the recognized incidents or features of that business. Interpretive Letter No. 494. The five enumerated powers are examples of banking powers but they are not the exclusive list. *Id.* Many other activities, including acting as a financial intermediary through commodity-linked transactions, are also inherent parts of the business of banking.[3]

Indeed, the OCC has previously determined that virtually all of the commodity-linked financial transactions in which the bank is currently engaged are permissible for national banks. For example, when taking deposits and making loans, national banks are permitted to enter into contracts which provide for interest payments which have fixed or variable rates. As the OCC explained in the *Decision of the Office of the Comptroller of the Currency on the Request by Chase Manhattan Bank, N.A., to Offer the Chase Market Index Investment Deposit Account,* national banks have the authority to establish the amount of the payments to be made and received under their deposit and loan contracts based on the market conditions and the needs of their customers. *See* No-Objection Letter No. 90-1 (February 16, 1990) *reprinted in* [1989-1990 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 83,095; and Letter from Horace G. Sneed, Senior Attorney, Legal Advisory Services Division (March 2, 1992) (unpublished) ("Portfolio Letter"). Accordingly, a bank may determine the amount of those payments by reference to any index or standard as long as the bank complies with safe and sound banking principles and, in the case of loans, with applicable state usury laws. *Id.*

The OCC has also permitted national banks to enter into matched and unmatched commodity price index swap transactions in order to assist their customers which desire to limit certain financial risks resulting from variations in commodity prices. *See* No-Objection Letter No. 90-1; and No-Objection Letter No. 87-5 (July 20, 1987) *reprinted in* [1988-1989] Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 84,034. In finding such transactions to be permissible for national banks, the OCC recognized that "[a] swap contract in which payments are based on commodity prices instead of interest rates or currency exchange rates fits within the powers of the national banks because it is simply a new way of tailoring traditional intermediation services of commercial banks to meet the needs of bank customers." No-Objection Letter 90-1. Indeed, the OCC has recognized that a commodity price swap involves the same types of payments that a bank makes and receives in connection with its loan contracts.[4] *Id.* Just as with its deposit and lending activities, in matched and unmatched swap transactions a bank acts as a financial intermediary on behalf of its customers, making and receiving payments. Because the other over-the-counter derivative transactions in which the bank participates are also forms of financial intermediation that involve these same types of payments, such transactions are also permissible for national banks. *Cf.*, Letter from Jimmy F. Barton, Deputy Comptroller for Multinational Banking (May 13, 1992) (unpublished) (permissible bank activities with respect to underlying instruments and commodities extend to their derivatives).

The OCC has also recognized that while national banks may not purchase nonfinancial commodities or nonfinancial commodities futures and options as investments, national banks may use commodities futures and options to manage risk arising from a permissible banking activity. *See* the Portfolio Letter. For instance, the OCC has recognized that national banks may use futures, options, and forward contracts to manage interest rate risk associated with their commercial banking activities. *See* Banking Circular 79 (3rd Rev) (April 19, 1983). Similarly, the OCC has concluded that a national bank may use futures contracts, options and similar over-the-counter instruments which are cash-settled to hedge commodities price risk resulting from unmatched swaps and that the use of such instruments as hedges may be on a portfolio basis. *See* No-Objection Letter 90-1; and the Portfolio Letter. In fact, in approving cash-settled options and similar over-the-

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[2]As one commentator has noted:

> whatever may be the legal rule as to business corporations, or municipal corporations, it seems clear that national banks are not confined to the powers specified in the National Bank Act and those necessary to carry out those specific powers; and that in the case of national banks . . . the test is not whether a power is necessarily incident to one of the specific powers granted, but whether it is properly implied from all of the terms used, in light of the general intent and purpose of the statute.

Trimble, *The Implied Power of National Banks to Issue Letters of Credit and Accept Bills,* 58 Yale L.J. 713, 721 (1949) ("Trimble").

[3]As indicated above, the State Banking Department (the "Banking Department") has reached a similar conclusion under law. In a letter dated September 17, 1992, the Banking Department concurred with the view that the bank could hedge the market risk arising from its commodity-linked activities by entering into transactions that involve physical delivery of commodities or transferring or receiving documents evidencing to making or taking physical delivery of commodities or transferring or receiving transfer of title documents. It should also be noted that the incidental bank powers clause of 12 U.S.C. 24(Seventh) is virtually identical to the incidental bank powers clause contained in the Banking Law.

[4]Unlike a deposit or loan, however, no principal is received or disbursed by the bank with a swap. Instead, payments are made based on a notional amount of the commodity and changes in an agreed-upon commodity price index.

counter instruments as appropriate hedges to commodities price risk, the OCC has noted that some over-the-counter instruments may match the bank's needs more closely than futures contracts. *See* the Portfolio Letter.

In some instances, however, both exchange-traded and over-the-counter transactions that are cash-settled may provide less than completely accurate hedges, thereby exposing the bank to basis risk. To the extent that access to the physical markets would provide a more accurate and precise hedge in such instances than exchange-traded or over-the-counter transactions, the OCC believes that it is permissible for a national bank to access the physical markets for hedging purposes, provided that such hedging activities are undertaken in accordance with safe and sound banking practices, including the conditions referred to below. Like exchange-traded and over-the-counter hedging transactions, physical hedging transactions enable a bank to reduce the risks associated with an otherwise permissible banking activity, e.g., engaging in commodity-linked transactions, and thus are part of or incidental to the business of banking and permissible activities for national banks under 12 U.S.C. 24(Seventh). Because many hedging transactions that involve physical settlement necessarily involve the transfer or receipt of documents evidencing title to such commodities, as well as storing, transporting, and disposing of the commodities, such activities would also be permissible for national banks.

Supervisory Concerns

Given the fact that physical hedging activities may expose a bank to certain additional risks, the OCC would require from a safety and soundness standpoint that a national bank only engage in hedging transactions that involve physical settlement where such transactions provide a more accurate hedge than available from exchange-traded or over-the-counter transactions taking into account all of the costs associated with the physical hedging transactions. Accordingly, both the OCC and the bank expect that only a nominal percentage of hedging transactions would actually be physically settled. The OCC wishes to emphasize that all physical hedging transactions must be customer driven and that a national bank may not use physical hedging transactions as a means to speculate in commodity price movements.

As with any activity conducted by a national bank, hedging transactions that involve physical settlement must be carried out in accordance with safe and sound banking practices to ensure that the risks encountered are appropriately managed. At a minimum, this means that a bank must have in place controls of the type already required by Banking Circular 79. Accordingly, the OCC would expect a national bank that engages in physical hedging transactions to adopt and maintain: (i) specific written policies and procedures endorsed by the board of directors which set forth the circumstances under which physical hedging activities are permissible, establish permissible physical hedging strategies and address the relationship between physical hedging activities and other banking activities; (ii) established position limitations; (iii) a system for monitoring credit risk exposure associated with various customers and dealers with whom operating personnel are authorized to transact business; (iv) appropriate internal controls including minimum documentation to support the authorized use of physical hedging activities, periodic reports to management, segregation of duties, and internal audit programs, designed to ensure adherence to bank policy and to prevent unauthorized trading and other abuses; (v) safeguards designed to manage the risks associated with storing, transporting, and disposing of commodities of which the bank has taken delivery, including policies and procedures designed to ensure that the bank has levels of insurance (including insurance for environmental liabilities) which, after deductions, are commensurate with the risks assumed; and (vi) minimum qualifications and appropriate training requirements for bank employees engaged in physical hedging transactions.

Conclusion

For the reasons discussed above and subject to the limitations contained herein, the OCC believes that it is legally permissible for a national bank to hedge the financial exposure arising from otherwise permissible banking activities in markets that involve physical delivery of commodities and, in connection with such hedging activities, to make or take physical delivery of commodities, transfer or receive transfer of documents of title, and engage in all activities incidental thereto. As indicated above, however, given the potential safety and soundness concerns associated with such activities, the OCC will require any national bank desiring to engage in physical hedging activities to obtain the prior written authorization of the OCC's supervisory staff before engaging in such activities.

William P. Bowden, Jr.
Chief Counsel

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633—September 20, 1993

Stephen B. Brown Esq.
Senior Attorney
Office of the Comptroller of the Currency
Southwestern District Office
Dallas, TX

This is in response to your correspondence dated April 27, 1993, in which you requested an interpretive letter addressing the issue of when the holding period beings for other real estate owned (OREO) that is acquired by a national bank through a merger, consolidation, conversion or purchase and assumption transaction (collectively "transactions"). In my opinion, the holding period begins on the date that the merger, consolidation, conversion or purchase and assumption transaction takes place, subject to any restrictions that the OCC may impose as part of the corporate application process.

As you know, the OCC recently published a final rule revising its regulation on OREO. *See* 58 Fed. Reg. 46529 (September 2, 1993), effective September 17, 1993. Under this regulation, a national bank may hold OREO for a period not to exceed five years, except that the Comptroller may approve an application by a bank to extend the holding period for up to an additional five years if either the bank has made a good faith attempt to dispose of the OREO within the five-year period; or disposal of the OREO within the five-year period would be detrimental to the bank. *See* 12 U.S.C. 29; 58 Fed. Reg. 46529, 46535 (to be codified at 12 CFR 34.82(a)). The regulation goes on to state that the holding period begins on the date that ownership of the property is originally transferred to a national bank. *See* 58 Fed. Reg. 46529, 46535 (to be codified at 12 CFR 34.82(b)).

When these transactions take place, the resulting national bank cannot dispose of the property until the bank acquires ownership. The fact that a national bank cannot dispose of the property was the primary reason the OCC decided to delay the beginning of the holding period in cases where a statutory redemption period is imposed on the national bank that acquired property through foreclosure. *See* 58 Fed. Reg. 46529, 46531, 46535 (to be codified at 12 CFR 34.82(c)). It is not appropriate to engage the holding period during a period when the national bank cannot dispose of the property. Therefore, it is my opinion that the holding period should begin on the effective date of the transactions.

Wallace S. Nathan
Director
Bank Operations and Assets Division

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634—July 23, 1993

I am writing in response to your letter to Rosemarie Oda, now district counsel in the OCC's Western District Office, concerning branching issues that were raised during the last examination of your client. These issues related to whether the bank is engaged in impermissible branching activities through the operations of two of its operating subsidiaries. For the reasons set forth below, it is my opinion that these operations are permissible and do not result in any branching violations.

Facts

From your letter to Ms. Oda, as supplemented by letters to me dated March 2 and May 5, 1993, I understand the facts relating to the two subsidiaries to be as follows.

Leasing Company

In 1990, the bank purchased the stock of an equipment leasing company that specializes in financing machine tool equipment. Most of the leases it originates are full payout leases, which the OCC has found to be incidental to banking under 12 U.S.C. 24(Seventh). A small proportion of the leases are so-called CEBA leases, authorized under 12 U.S.C. 24(Tenth).

The leasing company markets its services through approximately 15 sales representatives located throughout the United States. Customers almost never visit a leasing company office. Instead, most leases are originated as a result of sales calls to customers' locations, or by mail or telephone. Some leasing company sales personnel have no office and work out of their homes, and most others operate out of shared office suites.

Since the bank's acquisition of the leasing company, credit approvals and lease funding have continued to be conducted at the head office.[1] No sales personnel are located at this office except one regional marketing manager. As mentioned above, customers rarely, if ever, visit this office. Therefore, credit approval and funding operations take place in a "back room" environment, divorced from customer contact.

Mortgage Company

In 1991, the bank's parent transferred to the bank all the stock of a company that originates residential mortgage loans through a network of some 70 loan production offices (LPOs) in 11 western states. Following the transfer, credit approval offices that were contiguous with loan production offices were relocated to remote

[1] Leases are funded by checks drawn on a leasing company account at one of the bank's sister banks.

(i.e., noncontiguous) locations that are not licensed main or branch offices of the bank. Typically, loan documents are executed and funds are disbursed at the offices of a title company or other escrow agent.

As in the case of the leasing company, customers of the mortgage company do not visit the credit approval offices and company policy forbids contact between credit approval personnel and customers. Therefore, the mortgage company credit approval offices operate as "back rooms."

Discussion

Since the leasing company and mortgage company are now operating subsidiaries of the bank, all banking laws and regulations applicable to the bank also apply to the companies. 12 CFR 5.34(d)(2).

The permissibility of their activities, per se, is not in doubt. Real estate lending is expressly permitted to national banks by 12 U.S.C. 371. As for the leasing company, the OCC has long permitted national banks to engage in full payout personal property leasing (also known as "lease financing") on the theory that it is functionally equivalent to secured lending and thus permissible under 12 U.S.C. 24(Seventh). This position was upheld in *M & M Leasing Corp. v. Seattle First National Bank*, 563 F.2d 1377 (9th Cir. 1977), *cert. denied*, 436 U.S. 956 (1978).

In 1987, Congress expanded the leasing authority of national banks. Section 108 of the Competitive Equality in Banking Act, Pub. L. 100-86, 101 Stat. 579 (CEBA), permits national banks to "invest in tangible personal property . . . for lease financing transactions on a net lease basis," subject to an investment limit of 10 percent of the bank's assets. This authority is now codified at 12 U.S.C. 24(Tenth). Some of the leasing company's activities are authorized under this statute, as well.

However, under the McFadden Act, any bank office that performs certain "core" banking activities, including accepting deposits, paying checks, and lending money, is a branch and is subject to locational restrictions. 12 U.S.C. 36(f), 81. Consequently, OCC legal staff has taken the position in the past that section 24(7) leasing must be conducted at a main or branch office location. *See* letter from Peter Liebesman, Assistant Director, Legal Advisory Services Division, June 15, 1989 (unpublished).[2]

Although the McFadden Act defines a "branch" only in terms of the activities conducted there, 12 U.S.C. 36(f), that is not the end of the inquiry. In actuality, the courts have identified a number of actors that interact to form the true tests of "branchness":

1. The facility must perform at least one of the McFadden core banking functions of receiving deposits, paying checks, or lending money. *Clarke v. SIA*, 479 U.S. 388.

2. The facility must be "established" (i.e., owned or rented) by the bank. *Independent Bankers Ass'n of America v. Smith*, 534 F.2d 921 (D.C. Cir.), *cert. denied*, 429 U.S. 862 (1976) (*"IBAA v. Smith"*); *Independent Bankers Ass'n of New York v. Marine Midland Bank*, 757 F.2d 453 (2d Cir. 1985) (*"IBANY v. Marine Midland"*).

3. The facility must be accessible to the public, that is, the convenience of the office or facility to the public must give the bank a competitive advantage in obtaining customers. *First Nat'l Bank in Plant City v. Dickinson*, 396 U.S. 122 (1969) (*"Plant City"*); *IBAA v. Smith*, 534 F.2d 921.[3]

All of these factors must be satisfied in order for a bank office or facility to be a branch. For instance, if an office established by a bank serves the public but does not perform a core function, it is not a branch. *Clarke v. SIA*, 479 U.S. 388. That is also the theory behind the OCC's Interpretive Ruling 7.7380, 12 CFR 7.7380, permitting national banks to establish LPOs ("the LPO ruling"). Conversely, a facility that serves the public and offers a core function but is not established by the bank is also not a branch. *IBANY v. Marine Midland*, 757 F.2d 453.

Leasing Company

As stated earlier, leases are approved and funds are disbursed from the leasing company's headquarters office. Although it is not entirely certain, I will assume for the sake of this discussion that money is thus "lent" at that location for purposes of 12 U.S.C. 36. Therefore, it is possible that the first two factors above (namely, core activities and establishment) could be satisfied in the case of the leasing company. However, the last factor—accessibility to the public—is not. Thus, one of the issues raised by your letter is whether a bank-es-

[2]However, the Office has concluded that CEBA leases are not equivalent to lending and therefore need not be restricted to permissible branch locations. Liebesman letter, *supra*.

[3]In addition, a facility is not a "branch" if it is so close to an existing main or branch office that it is a mere "extension" of that office. *Driscoll v. Northwestern Nat'l Bank*, 484 F.2d 173 (8th Cir. 1973). The extension theory is not involved in this case.

tablished office is a branch if it performs a core function but is not accessible to the public.

In *Plant City*, the Supreme Court noted that the purpose of the McFadden Act was to maintain competitive equality between state and national banks insofar as branching was concerned. In deciding whether a bank facility that performs a McFadden activity is a branch, all aspects of a transaction that might give a national bank an advantage over state banks in the competition for customers, such as locational convenience to the customer, must be considered. 396 U.S. at 136-37. Thus, under *Plant City*, in-person contact with the public is a prerequisite of a branch. Facilities that do not serve customers obviously have no locational convenience for customers and thus do not give the bank any competitive advantage in gaining customers.

Based on this principle, the OCC has long maintained that if the public does not have access to a bank-established facility, it is not a branch, even if core activities are involved. For instance, a 1981 OCC letter concluded that a cash-dispensing machine to be installed in a bank back office, permitting bank employees to make cash withdrawals from their accounts, would not be a branch because there would be no public access and only bank employees would be able to use it. This was so even though making cash withdrawals from accounts was considered by the court in *IBAA v. Smith* to be equivalent to the core activity of paying checks. Letter from Peter Liebesman, Acting Director, LASD, July 24, 1981 (unpublished).

In 1985, the Office considered a case in which loans were originated and disbursed at main or branch offices of a bank but approved at a nonpublic back office. The question was whether the activity of approving loans constituted "lending money," making the back office an impermissible branch. It was held that loan approval, by itself, was not "lending money." Arguably, this reason alone would have been sufficient to find that the bank office was not a branch. However, our letter went on to make the important point that under the *Plant City* rationale, the office was also not a branch because loan customers and other members of the public had no contact with it and, therefore, from their viewpoint, received no banking services from it. Since there was no public access, the bank was not competing for customers at that location. In other words, the *Plant City* factors of customer convenience and competitive advantage were lacking. Interpretive Letter No. 343, May 24, 1985, *reprinted in* [1985-1987 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,513.

On July 31, 1989, the OCC approved the acquisition by Michigan National Bank, Farmington Hills, Michigan, of an out-of-state company that provided mortgage financing for small businesses throughout the northeastern United States. The company offered no walk-in services and had no personal contact with customers. Instead, applicants could call the company on an 800 telephone number, or company representatives would visit potential borrowers at their place of business. Loans were approved at the company's office and disbursed by wire transfer from the bank.

There are many similarities between that operation and the way the leasing company conducts its business. The leasing company office has no walk-in business, and effectively no in-person contact with customers.[4] Instead, the leasing company operates a nationwide business by telephone, mail, and outside sales calls.

Under such circumstances, the location carries with it no special convenience to the customer, and therefore provides the bank with no competitive advantage in obtaining customers. As you have noted, the present location was not selected for competitive advantage, since the bank acquired the leasing company as a going concern in its current location. In light of *Plant City*, it is my opinion that the leasing company office, which operates without public access, is not a branch of the bank within the meaning of 12 U.S.C. 36(f).

A further question remains to be examined, however, and that is the effect of 12 U.S.C. 81, which requires that the "general business" of a national bank must be "transacted" at its main office or authorized branches. Although the statute appears on its face to be categorical, it has never been understood to mean that all the business of a national bank must be performed at its main (or later, branch) office premises. Rather, from the earliest days of the National Bank Act, it has been recognized that Section 81 must be interpreted flexibly and realistically.

Thus, an early Supreme Court case held that Revised Statutes section 5190, the predecessor of 12 U.S.C. 81, must be construed "reasonably" because some business of every bank is unavoidably carried on away from its office. *Merchants' Nat'l Bank v. State Nat'l Bank*, 77 U.S. (10 Wall.) 604 (1871). A 1911 opinion of the Attorney General held that, while R.S. 5190 precluded national banks from establishing branches that would carry on a general banking business, it did not prevent them from establishing additional offices or agencies

[4]You stated in your letter to Ms. Oda that customers rarely come in person to the leasing company's office. Occasional, isolated visits by customers would not negate the conclusion that the leasing company is not a branch, as long as such visits are truly infrequent. *See Plant City*, 396 U.S. at 137 n.10.

to conduct a "particular class of business" that was less than the general business of banking. 29 Op. Att'y Gen. 81 (1911) ("Lowry National Bank"). In *First Nat'l Bank in St. Louis v. Missouri*, 263 U.S. 640 (1924), the Supreme Court affirmed that conclusion with regard to branching. Although the Court did not mention additional, nonbranch offices, it did specifically approve the Lowry National Bank opinion. 263 U.S. at 658. Therefore, the OCC has consistently construed 12 U.S.C. 81 as permitting national banks to have limited-purpose, nonbranch offices.

The OCC's interpretation has been that Section 81 was not intended to apply to every activity carried on by a national bank. Letter from Charles F. Byrd, Assistant Director, Legal Advisory Services Division, March 17, 1982 (unpublished). Rather, Section 81 is *in pari materia* and should be interpreted consistently with Section 36(f), and thus limited to the three core activities listed there. Letter of Michael Patriarca, Deputy Comptroller for Multinational Banking, March 28, 1985 (unpublished).

After the passage of the McFadden Act, 12 U.S.C. 81 was virtually ignored by the courts until *Clarke v. SIA*. The Supreme Court's decision in that case essentially ratified the OCC's position. The Court rejected the contention that Section 81 (and Section 36) apply to "all activities in which national banks are specifically authorized to engage," 479 U.S. at 406, and held instead that Section 81 "can plausibly be read to cover only those activities that are part of the bank's core banking functions," *id.* at 404. This was the conclusion with respect to Section 36(f), as well. *Id.* at 409.

If, as the Court has held, 12 U.S.C. 81 is intended to be consistent with 12 U.S.C. 36(f), then Section 81 must not be read more broadly than Section 36(f). Accordingly, not only is the scope of activities covered by the "general business" of banking in section 81 limited to the core banking functions of Section 36(f), but the phrase "general business . . . shall be transacted" must be read in light of the other prerequisites of "branchness" as well. Therefore, it is my conclusion that if an activity is being conducted away from chartered premises in a manner that for any reason causes the site of the activity not to be a "branch" within the meaning of 12 U.S.C. 36(f), then the "general business" of banking is not being "transacted" at that site for purposes of 12 U.S.C. 81.

For example, *IBANY v. Marine Midland* held that an ATM that is not owned or rented by a bank is not a branch. Even though such a "nonestablished" ATM is capable of offering core banking functions that would otherwise fall within the "general business" of banking, 12 U.S.C. 81 was not even mentioned by the *Marine Midland* court. Thus, the court implicitly recognized that a national bank is not "transacting" the "general business" of banking through such an ATM.

Similarly, since the leasing company's office is not a branch for purposes of 12 U.S.C. 36(f), the bank is not transacting the general business of banking at that office. Therefore, the operation of the leasing company at that location does not violate 12 U.S.C. 81.

Mortgage Company

The mortgage company operates a network of offices that originate mortgage loans. These offices are not located at branches of the bank, but function instead as LPOs. Loans are approved at separate, "back room" offices that are also not located at bank branches, while funds are delivered to borrowers at the offices of independent third parties such as a title company or escrow agent. An initial issue is whether the sites where mortgage company loans are approved and funds are delivered are impermissible bank branches. I find that they are not.

The process of lending money may be divided into at least three parts: origination, approval, and receipt of the funds by the borrower. The latter event has generally been held by the courts to be the point at which a loan is "made" for purposes of 12 U.S.C. 36(f). *See, e.g., IBAA v. Smith*, 534 F. 2d at 946 n.95; *Illinois v. Continental Illinois Nat'l Bank*, 409 F. Suppl. 1167 (N.D. Ill. 1975). However, in *Plant City*, the Supreme Court said that core banking services must be viewed from the customer's standpoint. Therefore, the OCC has taken the position in the past that origination and approval of loans at the same location would be substantially equivalent to "lending money" for purposes of 12 U.S.C. 36(f), even without the disbursal of funds. Interpretive Letter No. 343, *supra*.

However, neither origination nor approval, *standing alone*, is enough to constitute lending. The LPO Ruling, 12 CFR 7.7380, represents a find that loan origination, *by itself*, is not the lending of money within the meaning of 12 U.S.C. 36(f). Similarly, Interpretive Letter No. 343 found that loan approval, *by itself*, is not the lending of money for McFadden Act purposes. That letter was specifically limited to the use of nonpublic, back offices to approve loans originated at bank branches. However, as the letter noted, the appropriate inquiry is whether money is being "lent" at an off-premises location. Current OCC precedent requires either the delivery of funds or the combination of credit origination and approval in order to find that money is being "lent" within the meaning of 12 U.S.C. 36(f). Since neither of

these occurs at the mortgage company loan approval offices, they cannot be considered bank branches.

The nonpublic nature of these offices also precludes them from being branches. *Plant City* teaches that a branch is a facility that provides a branching service to the public and thus gives the bank a competitive advantage in obtaining customers. That is not the case here. The mortgage company back offices where loans are approved have no contact with loan customers. From their standpoint, customers do not receive banking services from these offices, nor is the bank competing for customers at these locations. Thus, the location of these approval offices is irrelevant to competitive advantage, and the only benefit to the bank is administrative. Interpretive Letter No. 343, *supra*.

Unlike the approval offices, the mortgage company does use publicly accessible offices to deliver loan proceeds. However, for the reasons discussed below, these offices are not branches under 12 U.S.C. 36. As noted previously, funds are delivered to mortgage company borrowers at the offices of third-party title companies or escrow agents. Although delivery of the loan proceeds occurs at these locations, they are not thereby transformed into branches of the bank. In the context of mortgage lending, delivery of funds at these off-premises sites confers no competitive advantage on the bank. The closing of a real estate loan is a one-time interaction between the lending bank and the borrower. It would be absurd to believe that a mortgage borrower would choose a lending bank based on where the loan check will be delivered; that simply is not a factor that would influence a rational borrower. An off-site real estate closing therefore appears to be exactly the situation the Supreme Court had in mind when it distinguished "relatively isolated, sporadic, and incon- sequential transactions where a bank employee . . . secures a signature on a note in exchange for a check delivered off premises." *Plant City*, 396 U.S. at 137 n.10.

Loans funded by national banks are frequently consummated as part of consumer transactions that take place away from bank premises, for instance, auto loans that are closed at car dealerships, or "private label" credit cards that permit purchases at the sponsoring retail stores. The McFadden Act was not intended to apply to nonbank locations that customers visit primarily to obtain nonbank products or services. As the *Marine Midland* court realized, the branching laws should not be interpreted in such a way that they outlaw what have come to be accepted and normal practices. 757 F.2d at 462. I therefore find that there is no violation of 12 U.S.C. 36(f) in the procedure followed by the mortgage company, which is commonplace in the mortgage lending business.[5]

Nor is there anything in the bank's activity which is barred by the OCC's LPO Ruling, which states that origination of loans at nonbranch locations does not violate 12 U.S.C. 36 and 81 if such loans are "approved and made" at a main or branch office of the bank. The LPO Ruling is permissive, not restrictive. Its purpose is not to prescribe where certain activities must be performed, but to help avoid violations of the branching laws by defining a "safe harbor" of loan origination activities that will not constitute branching. Letter of Richard V. Fitzgerald, Chief Counsel, June 26, 1987 (unpublished). Thus, in referencing loans that are approved and made at a main or branch office, the LPO Ruling merely describes procedures that, if followed, will be within the safe harbor. It does not purport to address the outer limits of what is permissible, or establish any affirmative requirement for where LPO-originated loans *must* be approved or made.

Moreover, the focus of the LPO Ruling is on LPOs. It has no application to locations that do not perform loan origination, such as the offices where mortgage company loans are approved or delivered. The OCC has, in fact, found that the delivery of LPO-originated real estate loan proceeds at closings held in the offices of title companies, attorneys, or other third parties is not covered by the LPO Ruling. Letter of Michael J. O'-Keefe, District Counsel, Midwestern District, June 23, 1988 (unpublished); letter of Roberta Walsh Boylan, Assistant Director Legal Advisory Services Division, October 21, 1980 (unpublished).[6]

Conclusion

To summarize, the leasing company main office is not an impermissible branch of the bank because it does not directly serve the public, a necessary prerequisite of a branch. The offices where mortgage company loans are approved and delivered do not meet the

[5] The discussion above concerning 12 U.S.C. 81 and the leasing company applies as well to the mortgage company and need not be repeated.

[6] The OCC's principal supervisory issuance relating to LPOs is Banking Circular 199, May 23, 1985, *reprinted in* 1 Fed. Banking L. Rep. (CCH) ¶ 3168A, which states that LPOs may not, under the LPO Ruling, approve loans. In addition, Interpretive Letter No. 88, January 31, 1979, *reprinted in* [1978-1979 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,155, contains a laundry list of other activities that were thought to be outside the safe harbor of the LPO Ruling.

However, mortgage company loans are approved and the funds delivered to borrowers at other locations, not at the LPOs. In fact, it does not appear that mortgage company LPOs perform any of the activities characterized as being outside the safe harbor for loan origination at LPOs; they do not establish any requirements or prohibitions concerning where other activities must be performed

statutory or judicial requirements for bank branches, and thus do not violate 12 U.S.C. 36(f). The leasing company and mortgage company offices are not in violation of 12 U.S.C. 81 because that statute is congruent with 12 U.S.C. 36(f).

Further, the mortgage company's business procedures, in which loans are originated at LPOs, approved at nonpublic "back offices," and funds delivered at the offices of third parties during real estate closings, are compatible with the Office's LPO Ruling (12 CFR 7.7380), Banking Circular 199, and Interpretive Letter No. 88. These issuances merely define a "safe harbor" for purposes of the branching laws, and do not establish any affirmative requirement concerning where loans originated at LPOs must be approved or made.

Christopher C. Manthey
Senior Attorney
Corporate Organization
and Resolutions Division

* * *

635—July 23, 1993

Robert K. Fulton, Esq.
Counsel
CoreStates Financial Corporation
P.O. Box 7618
Philadelphia, Pennsylvania 19101-7618

Dear Mr. Fulton:

This is in further regard to the application of CoreStates Bank, N.A., Philadelphia, Pennsylvania (the bank) to acquire Financial Telesis, Inc. (FTI) as an operating subsidiary. This application was filed with the OCC's Northeastern District office on September 16, 1992, and approved by the district on December 10, 1992. To facilitate processing of the application, the bank modified some of FTI's business procedures due to certain branching issues raised by FTI's operations. Use of the modified procedures was required pending further consideration of these issues, which this letter will now address.

FTI engages in the business of remittance processing, commonly called a "lockbox" service, for businesses or institutions that receive a large number of payments through the mail. These remittance customers instruct their obligors to mail their payments to post office boxes rented by the remittance customers, in their own names. As explained more fully below, remittance customers cannot place deposits directly into these boxes; all deposits must arrive through the mail. FTI picks up the mail from these post office boxes and processes the payments for the payees.

As described in your letters of September 16, 1992, October 21, 1992, and January 13, 1993, the services FTI performs involve clerical tasks such as noting address changes and updating payment records, and then delivering the various checks, drafts, and other payment instruments to the remittance customers' banks for deposit. It performs these services both for end users (payees) directly, and on a "private label" basis as subcontractor for other depository institutions who also offer this service. The approximately 500 end user customers deposit their funds in 35 different institutions.

The permissibility of providing this service, per se, is not in doubt, for it is a well-established activity of national banks. *See, e.g., United States v. Philadelphia National Bank,* 374 U.S. 321, 326 n.5 (1968); letter from Coreen S. Arnold, Senior Attorney, Central District, June 30, 1988 (unpublished); Jeanne Iida, *3 Banks Seek N.Y. State Lockbox Job,* Am. Banker, March 17, 1993, at 3. Accordingly, acquisition of FTI was approved by the Northeastern District. As mentioned, this approval was subject to further review of a branching issue raised by the application.

FTI has offices in Clifton, New Jersey, Langhorne, Pennsylvania, and Fairfax, Virginia, none of which is a main or branch office of the bank. The branching issue arises because 25 of FTI's remittance customers are depositors of the bank. With respect to these customers, the bank (through FTI) appears to be providing the service of picking up funds at off-premises locations for deposit in the remittance customers' accounts with the bank. This arguably resembles the fact situation in *First National Bank in Plant City v. Dickinson,* 396 U.S. 122 (1969), in which the Supreme Court held that a messenger service provided by the bank, that picked up funds from off-premises receptacles and customers' offices and transported them to the bank for deposit, was a branch for purposes of 12 U.S.C. 36(f). However, I believe that FTI's operation can be distinguished from the one in the *Plant City* case.

There are three requirements that must be satisfied in order for a banking facility to be a "branch." First, the facility must engage in "core banking activities," such as those listed in 12 U.S.C. 36(f): receiving deposits, paying checks, or lending money. *Clarke v. Securities Industry Association*, 479 U.S. 388 (1987). Second, it must be "established" by the bank, i.e., owned or rented by the bank. *Independent Bankers Association of America v. Smith,* 534 F.2d 921 (D.C. Cir.) *cert. denied,* 429 U.S. 862 (1976). Both of these might arguably be satisfied in this case.

However, the third requirement—and one which was stressed in *Plant City*— is that the facility must provide a convenience to bank customers that gives the bank a competitive advantage in obtaining customers. 396 U.S. at 136-37. Since a facility must directly serve members of the public in order to provide customer convenience, the OCC has sometimes called this the "public access" or "customer access" test.

This test has been used by the OCC since at least 1976. In that year, an opinion was issued saying that an office that did not cater to retail customers and therefore did not depend upon a convenient location for its success, was not a branch. Letter from John E. Shockey, Deputy Chief Counsel, February 23, 1976 (unpublished). The test has been cited a number of times since then.

For example, a letter in 1981 concluded that a cash-dispensing machine to be installed in a bank data processing center, permitting bank employees to make cash withdrawals from their accounts, would not be a branch. Because only bank employees would be able to use it, there would be no public access. Letter from Peter Liebesman, Acting Director, Legal Advisory Services Division, July 24, 1981 (unpublished). *See also,* Interpretive Letter No. 343, May 24, 1985, *reprinted in* [1985-1987 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,513 (a nonpublic "back room" office that performs only loan approvals is not a branch).

In my opinion, the public access test is not satisfied in the present case. Although picking up deposits from the depositor's post office box superficially resembles picking up deposits from the depositor's office, there are important differences. When picking up items from the depositor's office, a bank receives deposits directly from the depositor. As the Court found in *Plant City*, this is the type of customer convenience that would give the bank a competitive advantage in gaining customers.

When picking up items from the depositor's post office box, however, a bank is not receiving deposits directly from the depositor. Under Postal Service regulation, nothing may be placed in a post office box except material that has been transmitted through the mail. Domestic Mail Manual 951.161 (Issue No. 45, December 20, 1992). Thus, a box renter cannot place a deposit directly into a post office box. To make a deposit via his or her own post office box, the box holder must send it through the mail. For the same reason, a post office box is not a place where the general public can make deposits. Thus, a post office box is fundamentally different from the lockbox deposit receptacle in the *Plant City* case.

Since there is no direct access to a post office box, either by the individual boxholder-depositor or the public at large, a bank can gain no competitive advantage from it, and an essential element of a branch is missing. Moreover, the courts have held that a mailbox in which a depositor places a deposit to be mailed to a bank is not a branch. *Independent Bankers Association of America v. Smith*, 534 F.2d 921. It would be absurd and illogical to apply a different rule to the receptacle where the mail is received. A reasonable interpretation should treat both ends of the "postal pipeline" consistently.

It follows that a messenger service established by a bank, that picks up deposits from a post office box, is not a branch. It is merely a back office function. This is true whether the box renter is a depositor, as in this case, or the bank itself.[1]

The FTI offices to which the remittances are delivered for processing will also not be branches, in my opinion. Despite the fact that some deposits destined for the bank will be handled by FTI, as we have just seen, such deposits will only be received at the offices through nonbranching means. In addition, the offices themselves are purely "back room" offices that will perform only clerical tasks. There will be no public access to these offices, as no services will be offered to walk-in customers, whether for deposits or otherwise. That means the bank will not be competing for customers at these locations, hence they will not be branches within the meaning of 12 U.S.C. 36(f).

The OCC has found on many occasions that such "back room" processing centers are not branches. For example, the situation in the present case bears a close resemblance to that in No-Objection Letter No. 87-7, September 10, 1987, *reprinted in* [1988-1989 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 84,035, which concerned a "delinquent credit card account collection center." Despite the fact that credit card payments were held to be deposits in the *Smith* case, the center was found not to be a branch because it was a "back office" where the bank would not compete for deposit or loan customers. Its operations were limited to handling delinquent payments; current payments were not accepted there, even on an accommodation basis. *See also,* Interpretive Letter No. 70, November 22, 1978, *reprinted in* [1978-1979 Transfer Binder] Fed. Banking

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[1]The Postal Service offers a number of other delivery options that might involve a bank in picking up mailed deposits. "General delivery" service permits certain recipients to pick up mail at the post office. Domestic Mail Manual 953.1. "Firm holdout" service permits a customer receiving a certain volume of mail to pick it up at the post office. *Id.* at 954.4. With "caller" service, a customer may pick up mail at the post office call window or loading dock when post office box service is inadequate or unavailable. *Id.* 952.11, 952.137. The same result should apply to these alternative services, which differ only in form from post office boxes.

L. Rep. (CCH) ¶ 85,145 (a data processing center for transit items is not a branch because there is no contact with the public; no customer could make a deposit there).

As alluded to earlier, prior to the acquisition of FTI, some of its procedures were modified. With respect to remittances bound for the bank, instead of FTI personnel picking them up, taking them to FTI offices for processing, and then to the bank for deposit, bank personnel have been picking these items up from the post office boxes and taking them directly to the bank for deposit, then sending them to FTI offices for clerical processing. This procedure was an interim measure to permit the acquisition to go forward while the branching issue received further consideration, and cannot be changed without prior notification to the OCC. Letter from Gary Stoley, Licensing Manager, Northeastern District, December 10, 1992.

In view of my conclusion on this issue, it will not be necessary for the bank and FTI to continue to follow these procedures. Accordingly, there will be no objection if you return to the prior arrangements, in which FTI personnel pick up all remittances from the post office boxes.

Eric Thompson
Director
Corporate Organization and
Resolutions Division

* * *

636—July 23, 1993

I am writing in response to your letter of February 18, 1993, addressed to Richard H. Cleva, senior counsel in this Office. In your letter, you refer to previous correspondence that described how certain lending activities carried on by several national bank subsidiaries are structured. Mr. Cleva's reply stated that the OCC would not object to these arrangements as causing the national banks to be in violation of the branching provisions of the McFadden Act, 12 U.S.C. 36.

Since that time, it has come to your attention that a small amount of consumer lending is structured differently than the arrangements that were considered in the above exchange of letters, and you would like confirmation that the OCC would have no objection on McFadden Act grounds to these different procedures. For the reasons discussed below, we agree that the alternate procedures do not cause any violation of the branching laws.

According to your February 18 letter, supplemented by our telephone conversation of April 2, while most consumer loans are originated at the branch offices, a small portion of such loans is originated through a telemarketing facility. This facility is operated by "A" for itself and its lending affiliate "B." "C" will begin using it shortly, as well. These three banks will be referred to collectively as "the lending banks." B originates approximately 4 percent of its loans through the facility and the amount at C is expected to be small, as well.

The telemarketing facility obtains credit applications by telephone from interested loan customers who call in response to marketing by the lending banks. Customers are "assigned" to the appropriate lending bank according to where they live. For instance, a caller from Washington will be assigned to B. All staff of the telemarketing facility who deal with customers outside of A's area are dual employees of A and the appropriate lending bank. They make it clear to prospective borrowers that the relevant lending bank is the lender and will make the credit decision.

The applicant information is input into the parent holding company's mainframe computer, located at another site, which performs automated credit scoring for each lending bank according to criteria established by that bank. The telemarketing facility then communicates the lending bank's credit decision to the customer; discusses loan terms such as approved rates, terms, product features, and collateral; confirms the customer's decision on payment structure; and makes arrangements for loan closings, which are held at a lending bank branch of the customer's choosing. The telemarketing facility may also cross-sell other products offered by the lending bank.

If an application is rejected, the computer generates an adverse action letter on the lending bank's letterhead, the letter is signed by an appropriate dual employee of the telemarketing facility, and mailed to the applicant. Rejected applicants are directed to the telemarketing facility for questions with respect to adverse credit decisions. In cases where a manual override or counteroffer[1] is appropriate, a dual loan officer of A and the lending bank, located at what is known as the "direct loan center," makes the decision, and the telemarketing facility then communicates the decision to the applicant.

[1] A "manual override" occurs when a loan officer decides to grant credit despite a negative decision by the computer. This may be based upon intangible considerations such as keeping a relationship with a good customer. A "counteroffer" is made when an applicant qualifies for less credit than he or she requested.

The direct loan center reviews loan applications originated through in-person contact at bank branches as well as through telemarketing. Although the direct loan center and the telemarketing facility are separate operations with separate staffs, they are located on the same floor of the same building. Thus, some small percentage of telemarketed loans is at least conditionally approved at the same site where such loans are originated.

In my opinion, neither the telemarketing facility nor the "direct loan center" is a branch. Rather, they are "back offices" that merely perform activities that are incidental and preliminary to lending. The fact that they are located in the same building does not change this; two nonbranch back offices do not mutate into a branch simply because they are in proximity to each other.

There are three requirements that must be satisfied in order for a banking facility to be a "branch" for purposes of the McFadden Act, 12 U.S.C. 36. First, the facility must engage in one of the "core banking activities" listed in 12 U.S.C. 36(f): receiving deposits, paying checks, or lending money. *Clarke v. Securities Industry Ass'n,* 479 U.S. 388 (1987). Second, it must be "established" by the bank, i.e., owned or rented by the bank. *Independent Bankers Ass'n of America v. Smith,* 534 F.2d 921 (D.C. Cir.), *cert. denied*, 429 U.S. 862 (1976).

The third requirement is that a facility's location must provide a convenience to bank customers that gives the bank a competitive advantage in obtaining customers. Moreover, competitive advantage must be looked at from the customer's point of view. *First Nat'l Bank in Plant City v. Dickinson,* 396 U.S. 122, 136-37 (1969). Since a facility must serve members of the public in person in order to provide locational convenience to bank customers, the OCC has sometimes called this the "public access" test. If a location does not have public access, then the bank is not competing for customers at that location and it is a back office, not a branch. *See, generally,* my letter of today's date to your colleague, John J. DeMott, Esq.

As the factual summary above makes clear, the telemarketing facility does not lend money. It merely performs the customary types of loan origination activities that can be performed at a location production office, *see* 12 CFR 7.7380. It therefore does not perform a core banking activity within the meaning of 12 U.S.C. 36(f), which is sufficient reason by itself to conclude that the facility is not a branch.

In addition, there is no public access to the telemarketing facility. The lending banks do not compete for customers at that location, since no customers are seen in person. From the customers' point of view, they do not receive banking services from a facility that they never visit. Thus, the facility's site provides no locational convenience to customers; it merely provides administrative convenience to the lending banks.

Furthermore, all contact with customers is by telephone or mail. Customer contact by such means is not branch banking because these instrumentalities are not established by banks to facilitate banking transactions. *Independent Bankers Ass'n of New York State v. Marine Midland Bank,* 757 F.2d 453, 462 (2d Cir. 1985; *Independent Bankers Ass'n of America v. Smith,* 534 F.2d at 941.

The mainframe computer location, where most loan approvals are performed, and the "direct loan center," where some conditional loan approvals take place, are also nonbranch back offices. Again, there is no public access to these facilities, whose only function is to approve or disapprove the granting of credit. As the OCC has previously determined, loan approval, by itself, does not constitute the lending of money for purposes of 12 U.S.C. 36(f). It is therefore permissible to perform this function at a back office, nonbranch location. Interpretive Letter No. 343, May 24, 1985, *reprinted in* [1985-1987 Transfer Binder] Fed. Banking L. Rep. (CCH) ¶ 85,513.

To the extent that there is language in that letter which suggests that the combination of loan origination and loan approval at the same location would constitute the lending of money if performed by a loan production office, the arrangement described in your letter is distinguishable. The telemarketing center is not a loan production office, but a back office. A loan production office, while not a branch, by its nature serves the public and therefore requires public access. As we have seen, that element is lacking in the telemarketing facility.

Therefore, we do not object to the telemarketing and loan approval offices discussed above on the basis of the McFadden Act, 12 U.S.C. 36. Further, they do not negatively impact the no-objection position taken in Mr. Cleva's letter of August 28, 1992. This opinion is based on the information you have supplied, and any material change in these facts might result in a different conclusion.

Christopher C. Manthey
Senior Attorney
Corporate Organization and
Resolutions Division

* * *

637—September 17, 1993

I am writing in response to your August 25, 1993, letter on behalf of your client. In your letter you indicate that your client serves as distributor of mutual funds shares for the Municipal Money Market Fund and the Municipal Money Market Fund ("funds"), that the bank is the investment adviser to the funds, and that the corporation is in the process of registering the funds with the Massachusetts Securities Division.

In your letter you state that the Massachusetts Securities Division previously approved registration statements for the Fixed Income Fund, Growth Equity Fund, Growth and Income Equity Fund, Intermediate Government Income Fund, Limited Term Income Fund, Prime Money Market Fund, Small Capitalization Equity Fund, Intermediate Municipal Income Fund, and the letter goes on to indicate, however, that in connection with the current registration application for the funds the staff of the Massachusetts Securities Division has requested the corporation to provide a letter from the Office of the Comptroller of the Currency (OCC) stating that the use of the bank's name and trademark by the funds is in compliance with the recent guidelines of the OCC concerning national bank sales of uninsured nondeposit investment products.

On July 19, 1993, the OCC issued Banking Circular 274, "Retail Nondeposit Investment Sales." The banking circular reminds national banks of their obligation to comply with applicable laws and regulations in bank-related sales of investment products. It emphasizes the need for appropriate safeguards to avoid customer confusion regarding the nature of nondeposit investments purchased in bank related sales. The OCC expects banks to consider all of the circumstances surrounding sales of these products in order to avoid customer confusion. Among other relevant circumstances, the banking circular discusses appropriate disclosures, suitability of investments, qualifications and training of sales people, the setting of bank-related nondeposit investment sales, and the use of the bank's name in connection with such investment products.

Specifically, the banking circular states, "banks may not offer uninsured retail investment products with a product name identical to the bank's name. Banks also should recognize that the potential for customer confusion may be increased where the bank uses uninsured product names that are similar to the bank's own and should design their sales training to minimize this risk." As you have noted, although the funds' names are not identical to the bank's name, the similarity of the funds' names to the bank's name could increase the potential for customer confusion. Consistent with the approach described in the banking circular, the OCC would expect the bank to design its sales training to minimize this risk.

As you letter also notes, the staff of the Securities and Exchange Commission (SEC) has likewise required additional steps to address possible confusion in the similar name context. In clearing registration statements filed under the Investment Company Act of 1940 for mutual funds carrying common names with banks, the SEC has required specific disclosure in the fund prospectus in order to overcome a presumption that the name is misleading. You have advised us that the corporation will comply with these requirements.

Your letter acknowledges the importance of a complete sales program that minimizes the possibility of confusion that the funds are insured deposits or obligations of the bank. You describe the bank's overall program as including these features:

- The bank's advertising and marketing literature for the funds includes conspicuous disclosure that the funds are *not* FDIC insured, are *not* obligations of the bank, are *not* guaranteed by the bank, and involve investment risks, including the possible loss of principal.
- At the time a retail nondeposit investment account is opened, the bank will obtain a signed statement from its customers acknowledging such disclosures.
- These disclosures will also be featured conspicuously in all written and oral sales presentations, advertising and promotional materials, prospectuses, and periodic statements that include information on both deposit and nondeposit products.
- The fact that the bank is investment adviser to the funds will also be conspicuously disclosed.
- Bank tellers are prohibited from offering investment advice. Sales personnel will only offer investment advice consistent with the suitability requirements under the National Association of Securities Dealers (NASD) Rules of Fair Practice.
- Sales personnel are NASD Series 6 licensed representatives of the bank's registered brokerage affiliate.

The factors detailed in your description of the bank's sales program are generally consistent with those

described in other cases reviewed by the OCC involving sales of mutual funds with names similar to a bank's name. *See* OCC Interpretive Letter No. 622 (April 9, 1993).

Assuming therefore that the bank's sales training is appropriately designed to minimize the risk of potential customer confusion associated with the use of the variation of the bank's name and trademark by the funds, and recognizing that the bank's entire sales program will be reviewed by the OCC from time to time through the examination process, it appears that sales of the funds as described in your letter are generally consistent with the OCC's guidance to date in this area.

William P. Bowden, Jr.
Chief Counsel

* * *

Trust Interpretations

278—October 20, 1993

This is in reply to your letter of October 14, 1993, with reference to the planned new collective investment fund of your bank, known as the School District Operating Money Market Fund.

You advise that pursuant to Act No. 367 of the Public Acts of Michigan of 1982, local units of the government of Michigan may place monies in an investment pool managed by a financial institution which is eligible to be a depository of surplus funds. You further advise that in 1983, your bank established a fund known as the Governmental Operating Money Market Fund and that that fund is currently operating and is comprised of monies of many local units of government, including school districts. The new fund will be dedicated solely to the investment of surplus funds of Michigan school districts, and as such, will be governed by the investment guidelines established in the Michigan School Code of 1976, as amended. These guidelines are less restrictive than the investment provisions which have been applied to the Government Operating Money Market Fund, and thus will give your bank an opportunity to enhance the return to school districts. It is anticipated that this new fund will be comprised of school districts currently participating in the existing fund, along with other school districts choosing to participate.

In its planning for the establishment of this new fund, your bank has conducted an analysis of the expected participating accounts. This analysis reveals that at the outset, two anticipated participants would have interest in the fund which would be slightly in excess of the 10 percent limitation of 12 CFR 9.18(b)(9)(i). However, you believe that this excess would be "self correcting," and thus would not exist for an extended period.

In view of the foregoing, you have requested that this office issue an exemption from the 10 percent limitation of 12 CFR 9.18(b)(9)(i) for the School District Operating Money Market Fund. Based on the recitals of your letter, it is our opinion that the request is meritorious. Accordingly, pursuant to the authority delegated to me and under the provisions of 9.18(c)(5), I hereby grant an exemption from compliance with the 10 percent limitation of 9.18(b)(9)(i) for the School District Operating Money Market Fund for the period of one year from the date of its inception. This exemption is based upon the facts as presented and is limited to those facts. It is expected that at the end of the one-year period the fund will be in compliance with this and all other provisions of 12 CFR 9, or that it be closed down.

Dean E. Miller
Senior Advisor
for Fiduciary Responsibilities

* * *

279—October 19, 1993

This is in reply to your letter of October 7, 1993, on behalf of your client. You have requested a determination from this office that a pre-need investment trust ("trust") which is to be established is not a collective investment fund, or in the alternative, that it be exempt from the percentage requirements of 12 CFR 9.18(b)(9).

You advise that the trust will be established pursuant to a declaration of trust executed by your client. Licensed funeral directors will be able to participate in and contribute funds to the trust by executing and delivering a participation agreement. These funds contributed by the funeral directors will be from pre-need funeral or burial vault contracts between the directors and their customers, pursuant to appropriate sections of the Ohio Revised Code. In turn, the trust will invest these funds into one or more of the common trust funds of your client. It is anticipated that the common trust funds will then invest in one or more mutual funds, some of which are proprietary funds. You have requested a ruling that the trust is not a collective investment fund, or in the alternative, that the trust be exempted from the requirements of 12 CFR 9.18(b). You further advise that appropriate records will be maintained concerning the amounts deposited in the trust on behalf of the cus-

tomers of each funeral director, and the proportionate amount of income derived on the amounts so deposited. You do not anticipate that the total funds contributed by any one funeral director will exceed 10 percent of the market value of the trust.

In Trust Interpretive Letter 231, dated August 14, 1989, this office granted an exemption from the requirements of 12 CFR 9.18(b) for an identical trust arrangement for a bank in Ohio. Accordingly, for the reasons cited in that letter, under the provisions of 12 CFR 9.18(c)(5), an exemption is hereby granted so to operate the trust.

The trust, in turn, will invest in one of several collective investment funds and will be the sole participant in these funds. As such, obviously, the 10 percent limit will be exceeded by this investment. In addition, the collective investment funds in which funds of the trust are invested will invest in one or more mutual funds. Here too, it is anticipated that these investments by the collective investment funds may be in excess of 10 percent of the market value of such fund. You have requested an exemption from both of these requirements for the collective investment funds involved.

In support of this request, you point out that the trust could invest directly in the mutual funds, without limitation. Your client wishes to utilize the intermediate investment by the trust in the collective investment funds for purposes of administrative efficiency. However, we do not believe this is a compelling reason to permit a departure from the requirements of the regulation. Further, it does not appear that this request is necessary to the functioning of the overall arrangement. Accordingly, this request is not granted.

Dean E. Miller
Senior Advisor
for Fiduciary Responsibilities

* * *

No-Objection Letters

August 23, 1993

James P. Stephenson
Elizabeth R. Schiltz
Faegre & Benson
2200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402-3901

Re: Retailers National Bank/Dayton Hudson Corporation

Dear Mr. Stephenson and Ms. Schiltz:

This is in response to your letters of April 2, 1992, June 5, 1992, and May 27, 1993, requesting a no-objection letter relating to the Depository Institution Management Interlocks Act, 12 U.S.C. 3201 *et seq.*, (Interlocks Act). The letters expressed your opinion that the Interlocks Act would not prohibit certain current members of the board of directors of Dayton Hudson Corporation (the corporation) from continuing to serve as directors of unaffiliated banks or bank holding companies with assets of over $1 billion after the chartering of Retailers National Bank (the bank), a proposed national credit card bank which would be a wholly owned subsidiary of the corporation. For the reasons discussed below, the OCC will not object to the proposed director interlocks at this time.

Facts

The corporation is a publicly owned national retail holding company that proposes to consolidate its credit card operations into a newly chartered national credit card bank. The bank will qualify for the credit card bank exception to the Banking Holding Company Act of 1956 (BHCA), provided by the Competitive Equality in Banking Act of 1987, 12 U.S.C. 1841(c)(2)(F). The bank will engage only in credit card operations. It will not make commercial loans and, most significantly, it will not accept deposits from the public in any amount.[1]

The corporation will transfer to the bank upon its inception slightly less than $500 million of its current credit

[1] According to your May 27, 1993 letter, the bank will accept a single deposit from the corporation. The bank's obligation to permit withdrawals of this deposit will be limited solely to payments received under credit card receivables. The bank will therefore carry on its books a deposit liability.

card receivables. The credit card portfolio of the bank is projected to increase to $700 million over the next four years. You represent that the bank will not sell any portions of, or participations in, the receivables acquired from the corporation. None of the receivable accounts, whether initially transferred or subsequently established, will be funded through any deposit-taking activity of the bank. The bank's obligation to permit withdrawals of the deposit made by the corporation will be limited solely to payments received under credit card receivables.

The issues that arise under the Interlocks Act involve certain directors on the board of the corporation who currently serve as directors of unaffiliated banks or bank holding companies with assets in excess of $1 billion. Although no director of the corporation will serve as a director of the bank, you have expressed concern whether service on the board of the corporation may prohibit service on the boards of other companies implicated by the Interlocks Act once the asset size of the banks exceeds $500 million.

Discussion

The Interlocks Act generally restricts the ability of "management officials," a term defined by 12 U.S.C. 3201(4) and which includes directors, to serve more than one depository institution or depository holding company. The Interlocks Act provides that:

> If a depository institution or a depository holding company has total assets exceeding $1 billion management official of such institution or any affiliate thereof may not serve as a management official of any other nonaffiliated depository institution or depository holding company having total assets exceeding $500 million or as a management official of any affiliate of such other institution.

12 U.S.C. 3203. This section of the Interlocks Act, the so-called "major assets" provision, may restrict the service of the directors of a parent corporation of a depository institution, based upon the affiliate relationship between the parent corporation and its wholly-owned subsidiary. The parent corporation is an affiliate of its subsidiary if "more than 25 percent of the voting stock of one corporation is beneficially owned in the aggregate by one or more persons who also beneficially own in the aggregate more than 25 percent of the voting stock of the other corporation." 12 U.S.C. 3201(3)(B).

In your letters, you have discussed two separate issues in support of your view that the proposed dual service of certain directors of the corporation is not restricted by the Interlocks Act.

First, you have offered an argument in support of your view that a credit card bank, which is not a "bank" within the meaning of the BHCA, should not be considered an "affiliate" of its corporate parent for purposes of 3201(3)(B) of the Interlocks Act. As you are aware, this issue is currently under review within the OCC.[2] However, in view of the conclusion which we reach with respect to the second issue, as discussed below, it is not necessary to resolve the affiliate issue at this time.

The second and more significant issue discussed in your letter is your contention that whether or not a credit card bank is to be viewed as a 3201(3)(B) affiliate of its corporate parent, it is not a "depository institution" within the meaning of 3201(1) of the Interlocks Act because it will not accept any deposits from the public. It is therefore your opinion that the Interlocks Act is entirely inapplicable to the activities or management structure of the bank or its corporate parent.

The legislative purpose of the Interlocks Act is to promote competition among financial institutions and to ensure the general availability of credit and related financial services.

> Since financial institutions provide the lifeblood of communities - money and credit - the public's need for laws to assure a safe, sound, and responsive financial system is obvious. . . . When these bank services are lost or diminished through. . . anticompetitive situations. . . the impact on a community and a neighborhood can be severe.

H. Rept. No. 95-1383, Committee on Banking, Finance and Urban Affairs, *reprinted in* 1978 U.S. Code Cong. & Admin. News 9273, 9281.

This objective is achieved by restricting certain management interlocks between financial institutions in the relevant economic community affected. These restrictions related to the institutions' geographic location and asset size. 12 U.S.C. 3202 and 3203 and 12 CFR 26.3.[3]

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[2] In an October 26, 1989 letter from Paul Allan Schott, then OCC's Chief Counsel, to William S. Ecklund. In that letter, Mr. Schott advised that, until such issue was resolved, the OCC would not initiate any actions based upon a possible affirmative finding on the question. This no-objection position has recently been extended through September 30, 1994.

[3] The Interlocks Act prohibits an individual from serving as a management official for two nonaffiliated depository organizations if both are located in the same community, or if both are located in the same metropolitan statistical area and neither institution has assets over $20 million. The Interlocks Act also prohibits management officials from serving two or more depository organizations when one depository organization has total assets exceeding $1 billion and another has total assets exceeding $500 million.

Despite the broad purpose, the statutory language of the Interlocks Act does not apply to all financial institutions that may control money and credit in a community, but only to those that are "depository institutions" under 12 U.S.C. 3201(1). Stated conversely, the statute does not prohibit interlocking directorates for nondepository organizations.

The OCC has previously considered the issue of what kinds of financial institutions are within the scope of 3201(1), and has taken the position that "[a] basic precondition for the application of the Interlocks Act is the involvement of a depository organization." OCC Interpretive Letter No. 409, Fed. Banking L. Rep. (CCH) ¶ 85,633, (January 11, 1988).

As noted in Letter No. 409, 3201(1) defines "depository institution" by listing several institutions which do or may provide financial services to a community. All institutions listed—including a commercial bank, a savings bank, a trust company, a savings and loan association, a building and loan association, a homestead association, a cooperative bank, an industrial bank, and a credit union—are institutions which take deposits from the public. Therefore, in determining whether an institution should be considered bound by the Interlock Act's restrictions, the OCC has taken a functional approach and looked at the presence or absence of deposit-taking activity.

In Letter No. 409, the institution at issue was a limited purpose trust company. The letter took the position that, notwithstanding the fact that trust companies are expressly included in the statutory definition, a trust company which did not provide deposit or lending services to the community should not be considered within the reach of the Interlocks Act because its activities were not those of a provider of financial services such as would place it in competition with other depository institutions. After reviewing the legislative history of the Interlocks Act, the Letter No. 409 concluded:

> Because the [trust company and the interlocked national bank] relationship will not affect competition for individual deposits or extensions of credit within a community, prohibiting this relationship based upon a literal reading of the statute, is not . . .in accordance with Congressional intent.

By contrast, in an unpublished letter from Charles F. Byrd dated July 18, 1988 ("July letter"), the OCC addressed the applicability of the Interlocks Act to an institution which *would* take deposits, but which was *not* included in 3201(1). The institution in that instance was a credit card bank which would accept deposits, but not from the surrounding community. The July letter, rejecting the view that the list of institutions in 3201(1) was an enumerative and exhaustive one, took the same functional analysis approach to the question as that employed in Letter No. 409. Pointing out that "because deposit-taking activity is a common denominator among all the institutions listed in the Interlocks Act[,] an institution's deposit-taking activity [is] the factor in determining whether an institution is a depository institution." This letter concluded that the credit card bank at issue was a depository institution within the meaning of the Interlocks Act because it would take deposits, notwithstanding that credit card banks are not mentioned in the statute.

It is no doubt true that competition can and does exist between depository and nondepository financial institutions in the same community, and that therefore it might be argued that the legislative purpose of fostering competition in order "to assure a safe, sound, and responsive financial system" could be furthered by applying the Interlock Act's restrictions to nondepository institutions as well. H.R. No. 95-1383, *supra* at 3. It is also true that competition can exist with respect to the lending as well as the deposit-taking function; indeed, the congressional report quoted above referred to the need for "credit" as one of the functions Congress intended to safeguard. However, a review of the legislative history shows that Congress considered extending coverage of the statute to nondepository institutions and elected not to do so.

Congressman Fernand St Germain introduced an amendment which would have included prohibitions on interlocks between depository institutions "and any other company with which they compete." 124 Cong. Rec. 33,816 (1978). (His principal concern was the competition offered by insurance companies, but the amendment would have applied to any other company which might be in competition with a depository institution.) The amendment was not accepted. Opponents argued that such action would exceed the purpose of the Interlocks Act and was a circuitous attempt to amend the Clayton Antitrust Act. 124 Cong. Rec. 33,817 (statement of Congressman Garry Brown). Congressman St Germain later submitted a statement decrying what he considered a gap in the final bill, which in his view "fail [ed] to address the very real problems of interlocks between depository and nondepository institutions." He voiced concern that interlocks in such situations "were defeated in the committee."

It seems clear, regardless of the fact that potentially anticompetitive interlocks may exist between depository institutions and other types of financial service providers, that Congress intended the Interlocks Act to apply only to the former. H.R. No. 95-1383 (*supra*) at 3, p. 14) noted that the bill "expands the present prohibi-

tion on bank to bank interlocks to include interlocks between all kinds of depository institutions. . ."[4] The minority report on the final bill noted that Congress had tried to address the dual concerns "that the conflicts of interest involved in *some* interlocking directorates will be adequately regulated," while at the same time "permit[ting] sufficient flexibility to allow the vast pool of expertise available in the financial community to work together in a procompetitive atmosphere." 1978 U.S. Cong. & Admin. News 9273, 9370 (emphasis added).

In light of the foregoing, it seems clear that Congress intended the restrictions of the Interlocks Act to apply only to depository institutions, i.e., institutions which take deposits from the public, and depository institution holding companies. Therefore, the OCC will continue to apply to questions of this nature the same functional approach discussed above. In determining whether a particular financial institution, whether or not listed in 12 U.S.C. 3401(1), is subject to the restrictions of the Interlocks Act, the principal issue will be the extent to which the institution is taking deposits from the public.

With the exception of the one deposit from its corporate parent, the bank will accept no deposits. This deposit account, which is subject to restrictions related to the payment of credit card receivables, does not, in our view, render the bank a "depository institution" within the meaning of the Interlocks Act. As stated, the bank will accept no deposits from the public.[5]

[4]A letter from Arthur F. Burns, Chairman, Board of Governors, Federal Reserve System (September 28, 1976) commenting on the need for legislation restricting management interlocks, said:

> [I]nterlocking relationship between institutions that compete for the funds of the public involve a risk of abuse that the Board believes outweights the reasonable expectation of benefits that might flow from such relationships. This reasoning . . . is equally applicable to interlocking management personnel relationships *between any institutions engaged in the business of receiving deposits that may be in competition with each other* . . . whether or not its deposits are insured by a federal agency. (emphasis added)

[5]The credit card bank described in the July letter, which was structured to accept deposits from its corporate parent and affiliated companies, but not from the community in which it would be headquartered, was viewed by the OCC as a "depository institution" within the meaning of the Interlocks Act. However, because of our review of the legislative history discussed above, it seems proper to conclude that such "affiliate deposits" as arise in the instant case do not put the bank in the business of taking deposits. The OCC will continue to apply a functional approach to this question. To the extent that the July letter is inconsistent with this approach, it does not reflect the OCC's current views.

Although it will extend credit to the community, its unique source of funding will not affect the traditional deposit-based lending that is the common source of bank credit. As stated above, the Interlocks Act seeks to prompt competition in communities, either local or national, and thereby increase the availability of deposit-based credit in the community. The bank will not rely on a deposit base to extend credit; its source of funds will come from its corporate parent's revenues. The bank will not capture from the community any deposits which might otherwise be employed in the extension of credit. The bank will actually augment the existing supply of credit in the community without drawing upon the deposit base. The net result is, in effect, an increase in the supply of credit without a decrease in the deposit base. Stated another way, even if the bank attempted to increase interest rates by withholding its lendible funds, there would be no decrease in the amount of deposit-based lendable funds which are the prime focus of the Interlocks Act. Therefore, the legislative purpose of the Interlocks Act is not subverted by excluding the bank from the definition of depository institution.

Conclusion

Although the question of whether the corporation is an affiliate of the bank has yet to be resolved, the facts presented do not require resolution of this issue. Since the bank will not accept deposits, I do not consider the bank to be a depository institution subject to the Interlocks Act. In light of the foregoing analysis, and in reliance upon the facts as presented in your letters, I will recommend that the OCC take a no-objection position.

Eric Thompson
Director
Corporate Organization and Resolutions Division

* * *

Mergers — October 1 to December 31, 1993

Mergers consummated involving two or more operating banks.

Mergers consummated involving national banks and savings and loan associations.

A number of transactions in this section do not have accompanying decisions. In those cases, the OCC reviewed the competitive effects of the proposals by using its standard procedures for determining whether the transaction has minimal or no adverse competitive effects. The OCC found the proposals satisfied its criteria for transactions that clearly had no or minimal adverse competitive effects. In addition, the Attorney General either filed no report on the proposed transaction or found that the proposal would not have a significantly adverse effect on competition.

* * *

WORTHEN NATIONAL BANK OF NORTHWEST ARKANSAS,
Fayetteville, Arkansas, and First Bank, National Association, Bentonville, Arkansas

Names of institutions and type of transaction	*Total assets*
Worthen National Bank of Northwest Arkansas, Fayetteville, Arkansas, (18781), with	$405,160,000
and First Bank, National Association, Bentonville, Arkansas (18327), with	92,004,000
merged October 30, 1993, under charter and title of the former. The merged bank at date of merger had	502,591,000

* * *

THE FIRST NATIONAL BANK OF STRASBURG,
Strasburg, Colorado, and The Byers State Bank, Byers, Colorado

Names of institutions and type of transaction	*Total assets*
The First National Bank of Strasburg, Strasburg, Colorado (11640), with	$54,246,000
and The Byers State Bank, Byers, Colorado, with	22,627,000
merged November 17, 1993, under charter and title of the former. The merged bank at date of merger had	76,873,000

* * *

NATIONAL CITY TRUST COMPANY,
West Palm Beach, Florida, and Florida Trust Services of Ohio Bancorp, Naples, Florida

Names of institutions and type of transaction	*Total assets*
National City Trust Company, West Palm Beach, Florida (17484), with	$1,138,000
and Florida Trust Service of Ohio Bancorp, with	2,024,000
merged October 12, 1993, under charter and title of the former. The merged bank at date of merger had	3,162,000

* * *

SOUTHTRUST BANK OF SOUTHWEST FLORIDA, NATIONAL ASSOCIATION,
Cape Coral, Florida, and The National Bank of Lee County, Fort Myers, Florida

Names of institutions and type of transaction	*Total assets*
SouthTrust Bank of Southwest Florida, National Association, Cape Coral, Florida (20066), with	$164,328,000
and The National Bank of Lee County, Fort Myers, Florida (20942), with	73,414,000
merged December 30, 1993, under charter 20942 and title "SouthTrust Bank of Southwest Florida, National Association." The merged bank at date of merger had	237,743,000

* * *

FIRST UNION NATIONAL BANK OF FLORIDA,
Jacksonville, Florida, and The Enterprise Bank, National Association, Winter Park, Florida

Names of institutions and type of transaction	*Total assets*
First Union National Bank of Florida, Jacksonville, Florida (17695), with	$27,132,230,000
and The Enterprise Bank, National Association, Winter Park, Florida (21653) with	36,569,000
merged December 31, 1993, under charter and title of the former. The merged bank at date of merger had	27,170,558,000

* * *

Real mergers include the merger, consolidation, or purchase and assumption of operating banks or savings and loan associations, or branches of operating banks or savings and loan associations, where the resultant bank is a national bank.
Asset figures for merging institutions are not necessarily as of the date of merger and thus may not sum to the total assets given for the merged bank.

FIRST UNION NATIONAL BANK OF GEORGIA,
Atlanta, Georgia, and First American Bank of Georgia, National Association, Atlanta, Georgia

Names of institutions and type of transaction	*Total assets*
First Union National Bank of Georgia, Atlanta, Georgia (21161), with	$9,297,555,000
and First American Bank of Georgia, National Association, Atlanta, Georgia (15541), with	106,712,000
merged October 31, 1993, under charter and title of the former. The merged bank at date of merger had	9,407,388,000

* * *

BANK SOUTH, NATIONAL ASSOCIATION,
Atlanta, Georgia, and Barnett Bank of Fayette County, Fayetteville, Georgia

Names of institutions and type of transaction	*Total assets*
Bank South, National Association, Atlanta, Georgia (9617), with	$3,911,909,000
and Barnett Bank of Fayette County, Fayetteville, Georgia, with	93,318,000
merged December 2, 1993, under charter and title of the former. The merged bank at date of merger had	4,005,227,000

* * *

BANK SOUTH, NATIONAL ASSOCIATION,
Atlanta, Georgia, and Barnett Bank of Atlanta, Atlanta, Georgia

Names of institutions and type of transaction	*Total assets*
Bank South, National Association, Atlanta, Georgia (9617), with	$4,005,227,000
and Barnett Bank of Atlanta, Atlanta, Georgia, with	691,223,000
merged December 2, 1993, under charter and title of the former. The merged bank at date of merger had	4,723,174,000

* * *

COMPTROLLER'S DECISION

On July 20, 1993, application was made to the Office of the Comptroller of the Currency for prior authorization to merge Barnett Bank of Atlanta, Atlanta, Georgia, and Barnett Bank of Fayette County, Fayetteville Georgia (hereinafter, "BB-ATL" and "BB-FAY", respectively), with and into Bank South, N.A., Atlanta, Georgia (hereinafter, "Bank South"). This application was based on an agreement finalized between the proponents on May 4, 1993, as amended and restated on June 11, 1993.

As of March 31, 1993, BB-ATL and BB-FAY, both state-chartered banks, had total deposits of $610.1 million and $85.6 million and operated 26 and 4 offices, respectively. On the same date, Bank South had total deposits of $3.2 billion and operated 125 offices. Bank South is 100 percent owned and controlled by Bank South Corporation, Atlanta, Georgia, a multibank holding company.

The relevant geographic market for the merger with BB-FAY is the area including and immediately surrounding Fayette County, where BB-FAY, the target bank, operates and derives the bulk of its deposits. BB-FAY is one of nine banking institutions competing in this market. Bank South operates in an adjacent market and receives only a nominal amount of deposits from the market served by BB-FAY. The merger with BB-FAY essentially constitutes a market extension for Bank South and would have no significant adverse effects on competition.

The relevant geographic market for the merger with BB-ATL is Cobb County, where BB-ATL and Bank South compete and where BB-ATL derives the bulk of its deposits. Within this market, nineteen commercial banks and seven thrifts compete for approximately $3.6 billion in deposits. Bank South is the seventh largest depository with approximately three percent of the market's total deposits. BB-ATL ranks second with approximately fourteen percent of the deposits. The resulting bank would replace BB-ATL as the second largest depository in the market with approximately seventeen percent of the markets deposits. While the proposed transaction would eliminate some direct competition in the relevant geographic market, any adverse competitive effects would be mitigated by the presence of a member of other banking alternatives, including subsidiaries of three of the largest regional banking companies in the country. Accordingly, consummation of this proposal would not have a significant adverse effect on competition.

The Bank Merger Act requires the OCC to consider "...the financial and managerial resources and future prospects of the existing and proposed institutions, and convenience and needs of the community to be served." We find that the financial and managerial resources of Bank South, BB-ATL and BB-FAY do not raise concerns that would cause the application to be

disapproved. The future prospects of the proponents, individually and combined, are considered favorable and the resulting bank is expected to meet the convenience and needs of the community to be served. The merger will provide the customers with better access to banking services because of Bank South's extended hours and access to a much larger branch network.

A review of the record of this application and other information available to the OCC, as a result of its regulatory responsibilities, revealed no evidence that the applicants' record of helping to meet the credit needs of their communities, including low- and moderate-income neighborhoods, is less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act (12 U.S.C. 1828(c)) and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

September 15, 1993

* * *

THE SUMMIT NATIONAL BANK,
Atlanta, Georgia, and Vinings Bank & Trust, National Association, Atlanta, Georgia

Names of institutions and type of transaction	*Total assets*
The Summit National Bank, Atlanta, Georgia (21484), with	$84,669,000
and Vinings Bank & Trust, National Association, Atlanta, Georgia (21455), with	20,422,000
merged December 31, 1993, under charter and title of the former. The merged bank at date of merger had	104,264,000

* * *

THE FIRST NATIONAL BANK OF RAYMOND,
Raymond, Illinois, and State Bank of Girard, Girard, Illinois, and State Bank of Virden, Virden, Illinois

Names of institutions and type of transaction	*Total assets*
The First National Bank of Raymond, Raymond, Illinois (6910), with	$46,936,000
and State Bank of Girard, Girard, Illinois, with	19,379,000
and State Bank of Virden, Virden, Illinois, with	17,492,000
merged October 15, 1993, under charter 6910 and title "The First National Bank of Raymond." The merged bank at date of merger had	80,452,000

* * *

AMERICAN NATIONAL BANK AND TRUST COMPANY OF CHICAGO,
Chicago, Illinois, and American National Bank of Arlington Heights, Arlington Heights, Illinois

Names of institutions and type of transaction	*Total assets*
American National Bank and Trust Company of Chicago, Chicago, Illinois (13216), with	$4,492,476,000
and American National Bank of Arlington Heights, Arlington Heights, Illinois (14368), with	161,066,000
merged October 22, 1993, under charter and title of the former. The merged bank at date of merger had	4,653,542,000

* * *

CITIZENS FIRST NATIONAL BANK,
Princeton, Illinois, and Citizens First National Bank of Peru, Peru, Illinois

Names of institutions and type of transaction	*Total assets*
Citizens First National Bank, Princeton, Illinois (2413), with	$234,139,000
and Citizens First National Bank of Peru, Peru, Illinois (22524), with	57,119,000
merged December 6, 1993, under charter and title of the former. The merged bank at date of merger had	291,258,000

* * *

THE NATIONAL BANK OF CARMI,
Carmi, Illinois, and The First National Bank of Crossville, Crossville, Illinois

Names of institutions and type of transaction	Total assets
The National Bank of Carmi, Carmi, Illinois (5357), with	$58,407,000
and The First National Bank of Crossville, Crossville, Illinois (8801), with	13,493,000
merged December 17, 1993, under charter and title of the former. The merged bank at date of merger had	71,900,000

* * *

NBD NATIONAL BANK, NATIONAL ASSOCIATION,
Gary, Indiana, and INB National Bank, Indianapolis, Indiana

Names of institutions and type of transaction	Total assets
NBD Bank, National Association, Gary, Indiana (14468), with	$5,830,529,000
and INB National Bank, Indianapolis, Indiana (984), with	4,519,781,000
merged October 22, 1993, under charter 984 and title "NBD Bank, National Association." The merged bank at date of merger had	10,350,310,000

* * *

UNION NATIONAL BANK,
Massena, Iowa, and Corn Belt State Bank, Correctionville, Iowa

Names of institutions and type of transaction	Total assets
Union National Bank, Massena, Iowa (20939), with	$12,441,000
and Corn Belt State Bank, Correctionville, Iowa, with	14,548,000
merged November 1, 1993, under charter and title of the former. The merged bank at date of merger had	26,989,000

* * *

COMMERCE BANK, NATIONAL ASSOCIATION,
Bonner Springs, Kansas, and Commerce Bank, Leavenworth, Kansas

Names of institutions and type of transaction	Total assets
Commerce Bank, National Association, Bonner Springs, Kansas (18289), with	$ 9,617,000
and Commerce Bank, Leavenworth, Kansas, with	81,111,000
merged October 18, 1993, under charter and title of the former. The merged bank at date of merger had	90,728,000

* * *

THE STOCKTON NATIONAL BANK,
Stockton, Kansas, and Rooks County State Bank, Woodston, Kansas

Names of institutions and type of transaction	Total assets
The Stockton National Bank, Stockton, Kansas (7815), with	$37,002,000
and Rooks County State Bank, Woodston, Kansas, with	6,867,000
merged December 31, 1993 under charter and title of the former. The merged bank at date of merger had	43,419,000

* * *

LIBERTY NATIONAL BANK AND TRUST COMPANY OF LOUISVILLE,
Louisville, Kentucky, and Liberty National Bank of Lexington, Lexington, Kentucky

Names of institutions and type of transaction	Total assets
Liberty National Bank and Trust Company of Louisville, Louisville, Kentucky (14320), with	$3,335,000
and Liberty National Bank of Lexington, Lexington, Kentucky (18786), with	235,000
merged October 1, 1993, under charter and title of the former. The merged bank at date of merger had	3,570,000

* * *

NATIONAL CITY BANK, KENTUCKY,
Louisville, Kentucky, and National City Bank, Lexington, Lexington, Kentucky

Names of institutions and type of transaction	Total assets
National City Bank, Kentucky, Louisville, Kentucky (109), with	$5,094,016,000
and National City Bank, Lexington, Lexington, Kentucky (2901), with	447,814,000
merged November 1, 1993, under charter and title of the former. The merged bank at date of merger had	5,541,830,000

* * *

PREMIER BANK, NATIONAL ASSOCIATION,
Baton Rouge, Louisiana, and Alerion Bank, New Orleans, Louisiana

Names of institutions and type of transaction	Total assets
Premier Bank, National Association, Baton Rouge, Louisiana (13655), with	$3,841,000
and Alerion Bank, New Orleans, Louisiana, with	338,000
merged December 23, 1993, under charter and title of the former. The merged bank at date of merger had	4,178,000

* * *

THE FIRST NATIONAL BANK OF LAFAYETTE,
Lafayette, Louisiana, and First Acadiana National Bank, Landry Parish, Opelousas, Louisiana

Names of institutions and type of transaction	Total assets
The First National Bank of Lafayette, Lafayette, Louisiana (5023), with	$451,969,000
and First Acadiana National Bank, Landry Parish, Opelousas, Louisiana (16200), with	215,765,000
merged December 31, 1993, under charter and title of the former. The merged bank at date of merger had	667,734,000

* * *

FIRST UNION NATIONAL BANK OF MARYLAND,
Rockville, Maryland, and First American Bank of Maryland, Silver Spring, Maryland

Names of institutions and type of transaction	Total assets
First Union National Bank of Maryland, Rockville, Maryland (14864), with	$304,864,000
and First American Bank of Maryland, Silver Spring, Maryland, with	1,051,955,000
merged October 27, 1993, under charter and title of the former. The merged bank at date of merger had	1,418,603,000

* * *

SANDY SPRING NATIONAL BANK,
Olney, Maryland, and First Montgomery Bank of Maryland, Gaithersburg, Maryland

Names of institutions and type of transaction	Total assets
Sandy Spring National Bank, Olney, Maryland (5561), with	$638,396,000
and First Montgomery Bank of Maryland, Gaithersburg, Maryland, with	36,017,000
merged December 1, 1993, under charter and title of the former. The merged bank at date of merger had	674.212,000

* * *

COMMUNITY FIRST NATIONAL BANK OF BENSON,
Benson, Minnesota, and Citizens Bank, Morris, Minnesota

Names of institutions and type of transaction	Total assets
Community First National Bank of Benson, Benson, Minnesota (20497), with	$24,043,000
and Citizens Bank, Morris, Minnesota, with	38,619,000
merged October 1, 1993, under charter 20497 and title "Community First National Bank." The merged bank at date of merger had	62,651,000

* * *

FIRST BANK, NATIONAL ASSOCIATION,
Minneapolis, Minnesota, and First Bank Forest Lake, N.A., Forest Lake, Minnesota, and First Bank North, N.A., Duluth, Minnesota, and First Bank South, N.A., Mankato, Minnesota, and First Bank Southeast, N.A., Rochester, Minnesota, and First Bank Central, N.A., St. Cloud, Minnesota, and First Bank Minnesota, N.A., Virginia, Minnesota, and First Bank Anoka, N.A., Wayzata, Minnesota

Names of institutions and type of transaction	*Total assets*
First Bank, National Association, Minneapolis, Minnesota (710), with	$13,380,047,000
and First Bank Forest Lake, National Association, Forest Lake, Minnesota (16894), with	28,537,000
and First Bank North, National Association, Duluth, Minnesota (9327), with	343,520,000
and First Bank South, National Association, Mankato, Minnesota (1683), with	174,955,000
and First Bank Southeast, National Association, Rochester, Minnesota (579), with	520,069,000
and First Bank Central, National Association, St. Cloud, Minnesota (16744), with	286,558,000
and First Bank Minnesota, National Association, Virginia, Minnesota (6527), with	185,151,000
and First Bank Anoka, National Association, Wayzata, Minnesota (22514), with	68,384,000
merged October 8, 1993, under charter 710 and title "First Bank, National Association."	
The merged bank at date of merger had	14,871,783,000

* * *

NORWEST BANK MINNESOTA, NATIONAL ASSOCIATION,
Minneapolis, Minnesota, and Bank of Spring Lake Park, National Association, Spring Lake Park, Minnesota

Names of institutions and type of transaction	*Total assets*
Norwest Bank Minnesota, National Association, Minneapolis, Minnesota (2006), with	$15,097,106,000
and Bank of Spring Lake Park, National Association, Spring Lake Park, Minnesota (22664), with	58,260,000
merged December 3, 1993, under charter and title of the former. The merged bank at date of merger had	15,155,366,000

* * *

FIRST NATIONAL BANK,
Chisholm, Minnesota, and Farmers and Merchants State Bank of Cook, Cook, Minnesota

Names of institutions and type of transaction	*Total assets*
First National Bank, Chisholm, Minnesota (7647), with	$40,803,000
and Farmers and Merchants State Bank of Cook, Cook, Minnesota, with	8,991,000
merged December 31, 1993, under charter and title of the former. The merged bank at date of merger had	49,794,000

* * *

FIRST TENNESSEE BANK, NATIONAL ASSOCIATION, MISSISSIPPI
Southaven, Mississippi, and New South Bank, Como, Mississippi

Names of institutions and type of transaction	*Total assets*
First Tennessee Bank, National Association, Mississippi, Southaven, Mississippi (22494), with	$3,077,000
and New South Bank, Como, Mississippi, with	34,594,000
merged December 31, 1993, under charter and title of the former. The merged bank at date of merger had	37,671,000

* * *

COMMERCE BANK, NATIONAL ASSOCIATION,
Springfield, Missouri, and Lawrence County Bank, Aurora, Missouri

Names of institutions and type of transaction	*Total assets*
Commerce Bank, National Association, Springfield, Missouri (21538), with	$736,300,000
and Lawrence County Bank, Aurora, Missouri, with	32,863,000
merged December 10, 1993, under charter and title of the former. The merged bank at date of merger had	769,381,000

* * *

NORWEST BANK NEBRASKA, NATIONAL ASSOCIATION, Omaha, Nebraska, and Ralston Bank, Ralston, Nebraska

Names of institutions and type of transaction	*Total assets*
Norwest Bank Nebraska, National Association, Omaha, Nebraska (2978), with	$2,281,185,000
and Ralston Bank, Ralston, Nebraska, with	96,341,000
merged November 19, 1993, under charter and title of the former. The merged bank at date of merger had	2,373,526,000

* * *

NEW JERSEY NATIONAL BANK, Ewing Township, New Jersey, and Inter Community Bank, Springfield, New Jersey

Names of institutions and type of transaction	*Total assets*
New Jersey National Bank, Ewing Township, New Jersey (1327), with	$4,100,000,000
and Inter Community Bank, Springfield, New Jersey, with	128,900,000
merged December 20, 1993, under charter and title of the former. The merged bank at date of merger had	4,250,104,000

* * *

FIRST FIDELITY BANK, NATIONAL ASSOCIATION, NEW YORK, Bronx, New York, and Peoples Westchester Savings Bank, Hawthorne, New York

Names of institutions and type of transaction	*Total assets*
First Fidelity Bank, National Association, Bronx, New York (22558), with	$1,101,777,000
and Peoples Westchester Savings Bank, Hawthorne, New York, with	1,769,437,000
merged December 30, 1993, under charter and title of the former. The merged bank at date of merger had	2,956,897,000

* * *

COMPTROLLER'S DECISION

On July 23, 1993, application was made to the Office of the Comptroller of the Currency for prior authorization to merge Peoples Westchester Savings Bank ("Peoples"), Hawthorne, New York, (hereinafter "Peoples") with and into First Fidelity Bank, National Association, New York, Bronx (Riverdale), New York (hereinafter, "FFNY"). This application was based on an agreement completed between the proponents on April 14, 1993, and as amended April 26, 1993.

As of June 30, 1993, FFNY, a national bank, had total deposits of $330 million and operated 4 offices. As of the same date, Peoples had total deposits of $1,496 million and operated 31 offices. FFNY is 100 percent owned and controlled by First Fidelity Bancorporation, Inc., a multibank holding company.

The relevant geographic market for this proposal is Westchester County, where both banks compete and where the target derives the bulk of its deposits. Within this market, thirty-seven commercial banks and thrifts compete for approximately $18 billion in deposits. First Fidelity is the ninth largest depository institution with approximately four percent of the market's total deposits. Peoples ranks fourth with approximately nine percent of the deposits. Upon consummation of this transaction, First Fidelity would become the second largest depository institution in the market with approximately thirteen percent of the market's deposits. While the proposed transaction would eliminate some direct competition in the relevant geographic market, any adverse competitive effects would be mitigated by the presence of numerous other banking alternatives.

The Bank Merger Act requires this Office to consider "...the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs to be served." We find that the financial and managerial resources of FFNY do not raise concerns that would cause the application to be disapproved. The future prospects of the proponents, individually and combined, are considered favorable.

The resulting bank is expected to meet the convenience and needs of the community to be served. FFNY currently offers a full line of banking services and there will be no changes in these products or services as a result of the transaction. Upon completion of the merger, customers of Peoples will gain access to FFNY's much broader range of products and services. These include, among others: a full array of corporate, institutional and personal trusts, commercial lending, an eligible repository for municipal deposits, a large variety of deposit products, automobile lease financing and trade finance. The bank will also offer other services including credit counseling and lifeline deposit products.

Four branch closings are being considered as a result of the merger although no final determination

has been made. FFNY may eliminate two redundant branch operations and will continue to serve the neighborhood surrounding the former offices. The two other potential closings result from poor location and an unprofitable small volume of business. These locations are not in low- or moderate-income areas.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities has revealed no evidence that the applicant's record of helping to meet the credit needs of their communities, including low- and moderate-income neighborhoods, is less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 USC 1828(c) and find that it will not lessen significantly competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

November 29, 1993

* * *

STAR BANK, NATIONAL ASSOCIATION,
Cincinnati, Ohio, and Star Bank, National Association, Sidney, Sidney, Ohio

Names of institutions and type of transaction	*Total assets*
Star Bank, National Association, Cincinnati, Ohio (24), with	$6,381,663,000
and Star Bank, National Association, Sidney, Sidney, Ohio (5214), with	208,587,000
merged October 16, 1993, under charter and title of the former. The merged bank at date of merger had	6,564,931,000

* * *

LIBERTY BANK AND TRUST COMPANY OF OKLAHOMA CITY, NATIONAL ASSOCIATION,
Oklahoma City, Oklahoma, and The First National Bank of Edmond, Edmond, Oklahoma

Names of institutions and type of transaction	*Total assets*
Liberty Bank and Trust Company of Oklahoma City, National Association, Oklahoma City, Oklahoma (11230), with	$1,601,399,000
and The First National Bank of Edmond, Edmond, Oklahoma (6156), with	90,401,000
merged October 4, 1993, under charter and title of the former. The merged bank at date of merger had	1,684,427,000

* * *

FIRST NATIONAL BANK OF OKLAHOMA,
Tonkawa, Oklahoma, and Leadership Bank, National Association, Oklahoma City, Oklahoma

Names of institutions and type of transaction	*Total assets*
First National Bank of Oklahoma, Tonkawa, Oklahoma (11397), with	$27,209,000
and Leadership Bank, National Association, Oklahoma City, Oklahoma (18245), with	1,889,000
merged October 14, 1993, under charter and title of the former. The merged bank at date of merger had	27,209,000

* * *

LIBERTY BANK AND TRUST COMPANY OF OKLAHOMA CITY, NATIONAL ASSOCIATION,
Oklahoma City, Oklahoma, and Liberty Bank of Midwest City, National Association, Midwest City, Oklahoma

Names of institutions and type of transaction	*Total assets*
Liberty Bank and Trust Company of Oklahoma City, National Association, Oklahoma City, Oklahoma (11230), with	$1,547,025,000
and Liberty Bank of Midwest City, National Association, Midwest City, Oklahoma (20063), with	6,746,000
merged November 1, 1993, under charter and title of the former. The merged bank at date of merger had	1,553,771,000

* * *

THE AMERICAN NATIONAL BANK AND TRUST COMPANY OF SAPULPA,
Sapulpa, Oklahoma, and Limestone National Bank, Sand Springs, Oklahoma

Names of institutions and type of transaction	*Total assets*
The American National Bank and Trust Company of Sapulpa, Sapulpa, Oklahoma (7788), with	$206,000,000
and Limestone National Bank, Sand Springs, Oklahoma (18133), with	17,000,000
merged November 8, 1993, under charter and title of the former. The merged bank at date of merger had	210,000,000

* * *

LIBERTY BANK AND TRUST COMPANY OF OKLAHOMA CITY, NATIONAL ASSOCIATION, Oklahoma City, Oklahoma, and Midwest National Bank, Midwest City, Oklahoma

Names of institutions and type of transaction	Total assets
Liberty Bank and Trust Company of Oklahoma City, National Association, Oklahoma City, Oklahoma (11230), with	$1,553,771,000
and Midwest National Bank, Midwest City, Oklahoma (16816), with	39,036,000
merged November 30, 1993, under charter and title of the former. The merged bank at date of merger had	1,592,807,000

* * *

BANK IV OKLAHOMA, NATIONAL ASSOCIATION, Tulsa, Oklahoma, and Western National Bank of Tulsa, Tulsa, Oklahoma

Names of institutions and type of transaction	Total assets
Bank IV Oklahoma, National Association, Tulsa, Oklahoma (18308), with	$1,583,937,000
and Western National Bank of Tulsa, Tulsa, Oklahoma (16659), with	205,577,000
merged December 3, 1993, under charter and title of the former. The merged bank at date of merger had	1,791,240,000

* * *

BANK IV OKLAHOMA, NATIONAL ASSOCIATION, Tulsa, Oklahoma, and Security Bank and Trust Company of Ponca City, Ponca City, Oklahoma

Names of institutions and type of transaction	Total assets
Bank IV Oklahoma, National Association, Tulsa, Oklahoma (18308), with	$1,791,240,000
and Security Bank and Trust Company of Ponca City, Ponca City, Oklahoma, with	118,240,000
merged December 10, 1993, under charter and title of the former. The merged bank at date of merger had	1,910,202,000

* * *

THE PEOPLES NATIONAL BANK, Kingfisher, Oklahoma, and The Citizens National Bank and Trust Company, El Reno, Oklahoma

Names of institutions and type of transaction	Total assets
The Peoples National Bank, Kingfisher, Oklahoma (9954), with	$111,778,000
and The Citizens National Bank and Trust Company, El Reno, Oklahoma (5985), with	46,177,000
merged December 10, 1993, under charter and title of the former. The merged bank at date of merger had	154,547,000

* * *

LIBERTY BANK AND TRUST COMPANY OF TULSA, NATIONAL ASSOCIATION, Tulsa, Oklahoma, and Bank of Tulsa, Tulsa, Oklahoma

Names of institutions and type of transaction	Total assets
Liberty Bank and Trust Company of Tulsa, National Association, Tulsa, Oklahoma (5171), with	$848,845,000
and Bank of Tulsa, Tulsa, Oklahoma, with	68,348,000
merged December 31, 1993, under charter and title of the former. The merged bank at date of merger had	917,194,000

* * *

NATIONAL PENN BANK, Boyertown, Pennsylvania, and Chesnut Hill National Bank, Philadelphia, Pennsylvania

Names of institutions and type of transaction	Total assets
National Penn Bank, Boyertown, Pennsylvania (2137), with	$851,137,000
and Chesnut Hill National Bank, Philadelphias, Pennsylvania (18590), with	75,923,000
merged December 2, 1993, under charter and title of the former. The merged bank at date of merger had	927,060,000

* * *

FIRST NATIONAL BANK OF WEST TEXAS, Lubbock, Texas, and Texas Commerce Bank, National Association, Lubbock, Texas

Names of institutions and type of transaction	Total assets
First National Bank of West Texas, Lubbock, Texas (14208), with	$966,451,000
and Texas Commerce Bank, National Association, Lubbock, Texas (8208), with	154,043,000
merged October 1, 1993, under charter and title of the former. The merged bank at date of merger had	1,125,494,000

* * *

CORPUS CHRISTI NATIONAL BANK,
Corpus Christi, Texas, and Coast Bend National Bank, Corpus Christi, Texas

Names of institutions and type of transaction	*Total assets*
Corpus Christi National Bank, Corpus Christi, Texas (4423), with	$740,110,000
and Coastal Bend National Bank, Corpus Christi, Texas (17425), with	37,078,000
merged October 14, 1993, under charter and title of the former. The merged bank at date of merger had	772,147,000

* * *

TEXAS COMMERCE BANK NEW BRAUNFELS, NATIONAL ASSOCIATION,
New Braunfels, Texas, and Plaza Bank, National Association, of New Braunfels, New Braunfels, Texas

Names of institutions and type of transaction	*Total assets*
Texas Commerce Bank New Braunfels, National Association, New Braunfels, Texas (4295), with	$153,240,000
and Plaza Bank, National Association, of New Braunfels, New Braunfels, Texas (21748), with	61,967,000
merged October 14, 1993, under charter and title of the former. The merged bank at date of merger had	214,930,000

* * *

TEXAS COMMERCE BANK, NATIONAL ASSOCIATION,
Houston, Texas, and Texas Commerce Bank Rio Grande Valley, National Association, McAllen, Texas

Names of institutions and type of transaction	*Total assets*
Texas Commerce Bank, National Association, Houston, Texas (10225), with	$11,349,616,000
and Texas Commerce Bank Rio Grande Valley, National Association, McAllen, Texas (14635), with	777,059,000
merged October 15, 1993, under charter and title of the former. The merged bank at date of merger had	12,126,164,000

* * *

THE FROST NATIONAL BANK OF SAN ANTONIO,
San Antonio, Texas, and Cullen Center Bank and Trust, Houston, Texas

Names of institutions and type of transaction	*Total assets*
The Frost National Bank of San Antonio, San Antonio, Texas (5179), with	$2,587,206,000
and Cullen Center Bank and Trust, Houston, Texas, with	266,558,000
merged November 5, 1993, under charter and title of the former. The merged bank at date of merger had	3,193,115,000

* * *

TEXAS COMMERCE BANK, NATIONAL ASSOCIATION,
Houston, Texas, and Texas Commerce Bank Midland, National Association, Midland, Texas, and Texas Commerce Bank Odessa, National Association, Odessa, Texas, and Texas Commerce Bank El Paso, National Association, El Paso, Texas

Names of institutions and type of transaction	*Total assets*
Texas Commerce Bank, National Association, Houston, Texas (10225), with	$13,167,000,000
and Texas Commerce Bank Midland, National Association, Midland, Texas (18304), with	185,455,000
and Texas Commerce Bank Odessa, National Association, Odessa, Texas (22200), with	162,418,000
and Texas Commerce Bank El Paso, National Association, El Paso, Texas (12769), with	1,113,895,000
merged November 13, 1993, under charter 10225 and title "Texas Commerce Bank, National Association." The merged bank at date of merger had	14,628,768,000

* * *

FIDELITY BANK, NATIONAL ASSOCIATION,
University Park, Texas, and Stemmons Northwest Bank, National Association, Dallas, Texas

Names of institutions and type of transaction	*Total assets*
Fidelity Bank, National Association, University Park, Texas (18073), with	$66,727,000
and Stemmons Northwest Bank, National Association, Dallas, Texas (18592), with	26,430,000
merged November 19, 1993, under charter and title of the former. The merged bank at date of merger had	91,701,000

* * *

TEXAS COMMERCE BANK, NATIONAL ASSOCIATION,
Houston, Texas, and Texas Commerce Bank Dallas, National Association, Dallas, Texas, and Texas Commerce Bank New Braunfels, National Association, New Braunfels, Texas, and Texas Commerce Bank Austin, National Association, Austin, Texas, and Texas Commerce Bank Beaumont, National Association, Beaumont, Texas, and Texas Commerce Bank San Antonio, National Association, San Antonio, Texas

Names of institutions and type of transaction	*Total assets*
Texas Commerce Bank, National Association, Houston, Texas (10225), with	$14,628,768,000
and Texas Commerce Bank Dallas, National Association, Dallas, Texas (15328), with	4,186,246,000
and Texas Commerce Bank New Braunfels, National Association, New Braunfels, Texas (4295), with	150,410,000
and Texas Commerce Bank Austin, National Association, Austin, Texas (13926), with	777,041,000
and Texas Commerce Bank Beaumont, National Association, Beaumont, Texas (5825), with	807,556,000
and Texas Commerce Bank San Antonio, National Association, San Antonio, Texas (22201), with	351,156,000
merged December 10, 1993, under charter 10225 and title "Texas Commerce Bank, National Association." The merged bank at date of merger had	20,818,712,000

* * *

ZIONS FIRST NATIONAL BANK,
Salt Lake City, Utah, and Wasatch Bank, Orem, Utah

Names of institutions and type of transaction	*Total assets*
Zions First National Bank, Salt Lake City, Utah (4341), with	$3,367,189,000
and Wasatch Bank, Orem, Utah, with	69,295,000
merged October 29, 1993, under charter and title of the former. The merged bank at date of merger had	3,428,529,000

* * *

FIRST SECURITY BANK OF UTAH, NATIONAL ASSOCIATION,
Ogden, Utah, and First Professional Bank, Salt Lake City, Utah

Names of institutions and type of transaction	*Total assets*
First Security Bank of Utah, National Association, Ogden, Utah (2597), with	$4,488,100,000
and First Professional Bank, Salt Lake City, Utah, with	6,385,000
merged November 30, 1993, under charter and title of the former. The merged bank at date of merger had	4,493,348,000

* * *

FIRST UNION NATIONAL BANK OF VIRGINIA,
Roanoke, Virginia, and First American Bank of Virginia, McLean, Virginia

Names of institutions and type of transaction	*Total assets*
First Union National Bank of Virginia, Roanoke, Virginia (2737), with	$6.369,701,000
and First American Bank of Virginia, McLean, Virginia, with	2,432,742,000
merged October 27, 1993, under charter and title of the former. The merged bank at date of merger had	8,917,574,000

* * *

THE FIRST NATIONAL BANK OF MORGANTOWN,
Morgantown, West Virginia, and Community Bank and Trust Company of Harrison County, Clarksburg, West Virginia

Names of institutions and type of transaction	*Total assets*
The First National Bank of Morgantown, Morgantown, West Virginia (14396), with	$412,431,000
and Community Bank and Trust Company of Harrison County, Clarksburg, West Virginia, with	563,931,000
merged November 19, 1993, under charter 14396 and title "Huntington National Bank West Virginia." The merged bank at date of merger had	1,109,668,000

* * *

NORWEST BANK WISCONSIN, NATIONAL ASSOCIATION,
Milwaukee, Wisconsin, and University Bank, Green Bay, Wisconsin

Names of institutions and type of transaction	*Total assets*
Norwest Bank Wisconsin, National Association, Milwaukee, Wisconsin (15057), with	$1,261,329,000
and University Bank, Green Bay, Wisconsin, with	175,470,000
merged October 22, 1993, under charter and title of the former. The merged bank at date of merger had	1,435,393,000

* * *

FIRST NATIONAL BANK AND TRUST,
Monroe, Wisconsin, and Citizens State Bank, Belleville, Wisconsin

Names of institutions and type of transaction	*Total assets*
First National Bank and Trust, Monroe, Wisconsin (230), with	$144,910,000
and Citizens State Bank, Belleville, Wisconsin, with	29,741,000
merged November 30, 1993, under charter and title of the former. The merged bank at date of merger had	174,651,000

* * *

NATIONSBANK OF GEORGIA, NATIONAL ASSOCIATION,
Atlanta, Georgia, and First Federal Savings Bank of Georgia, Winder, Georgia

Names of institutions and type of transaction	*Total assets*
NationsBank of Georgia, National Association, Atlanta, Georgia (13068), with	—
and First Federal Savings Bank of Georgia, Winder, Georgia, with	—
merged November 5, 1993, under charter and title of the former. The merged bank at date of merger had	—

* * *

SOUTHTRUST BANK OF GEORGIA, NATIONAL ASSOCIATION,
Atlanta, Georgia, and First Federal Savings Bank of Georgia, Winder, Georgia

Names of institutions and type of transaction	*Total assets*
SouthTrust Bank of Georgia, National Association, Atlanta, Georgia (22520), with	—
and First Federal Savings Bank of Georgia, Winder, Georgia, with	—
merged November 5, 1993, under charter and title of the former. The merged bank at date of merger had	—

* * *

FIRSTIER BANK, NATIONAL ASSOCIATION,
Omaha, Nebraska, and Firstier Savings Bank, F.S.B., Omaha, Nebraska

Names of institutions and type of transaction	*Total assets*
Firstier Bank, National Association, Omaha, Nebraska (1633), with	$1,473,783,000
and Firstier Savings Bank, F.S.B., Omaha, Nebraska, with	135,872,000
merged October 29, 1993, under charter and title of the former. The merged bank at date of merger had	1,600,387,000

* * *

SOUTHERN NATIONAL BANK OF NORTH CAROLINA,
Lumberton, North Carolina, and East Coast Savings Bank, Goldsboro, North Carolina

Names of institutions and type of transaction	*Total assets*
Southern National Bank of North Carolina, Lumberton, North Carolina (10610), with	$4,160,121,000
and East Coast Savings Bank, Goldsboro, North Carolina, with	256,488,000
merged October 7, 1993, under charter and title of the former. The merged bank at date of merger had	4,440,701,000

* * *

NATIONSBANK OF NORTH CAROLINA, NATIONAL ASSOCIATION,
Charlotte, North Carolina, and First American Federal Savings Bank, Greensboro, North Carolina

Names of institutions and type of transaction	*Total assets*
NationsBank of North Carolina, National Association, Charlotte, North Carolina (13761), with	$24,549,000,000
and First American Federal Savings Bank, Greensboro, North Carolina, with	14,261,000
merged October 8, 1993, under charter and title of the former. The merged bank at date of merger had	24,562,130,000

* * *

PNC BANK, OHIO, NATIONAL ASSOCIATION,
Cincinnati, Ohio, and Gateway Federal Savings Bank, Cincinnati, Ohio

Names of institutions and type of transaction	*Total assets*
PNC Bank, National Association, Cincinnati, Ohio (16416), with	$3,582,869,000
and Gateway Federal Savings Bank, Cincinnati, Ohio, with	503,995,000
merged November 19, 1993, under charter and title of the former. The merged bank at date of merger had	4,064,471,000

* * *

COMPTROLLER'S DECISION

On May 18, 1993, application was made to the Office of the Comptroller of the Currency for prior authorization to merge Gateway Federal Savings Bank, Cincinnati, Ohio (hereinafter "Gateway") into PNC Bank, Ohio, National Association, Cincinnati, Ohio (hereinafter "PNC"). The application was based on an agreement and plan of reorganization entered into between the proponents on December 21, 1992, which was subsequently amended on May 17, 1993.

As of March 31, 1993, Gateway, a federally chartered SAIF insured stock savings bank, had total deposits of $460 million and operated 10 offices. On the same date, PNC had total deposits of $2.1 billion and operated 55 offices. The acquiring bank is wholly owned PNC Bank Corp, a multibank holding company. Gateway is wholly owned by Gateway Fed Corporation.

The OCC has reviewed the competitive effects of the proposal by using its standard procedures for determining whether a merger clearly has minimal or no adverse competitive effects. The OCC finds that the proposal satisfies its criteria for a merger that clearly has no or minimal adverse competitive effects.

The Bank Merger Act requires the OCC to consider "...the financial and managerial resources and future prospects of the existing and proposed institutions, and the convenience and needs of the community to be served." We find that the financial and managerial resources of Gateway and PNC do not raise concerns that would cause the application to be disapproved. The future prospects of PNC are considered favorable. The merger will allow the resulting bank to offer additional retail and commercial products to existing customers of Gateway. The resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of the application and other information available to the OCC as a result of its regulatory responsibilities has revealed no evidence that PNC's record of helping to meet the credit needs of its community, including low and moderate income neighborhoods, is less than satisfactory. It was noted that Gateway had a less than satisfactory record of performance under the Community Reinvestment Act. The application reflects plans by PNC to immediately incorporate its CRA policies and procedures into the operations of the branches being acquired from Gateway.

We have analyzed this proposal pursuant to the Bank Merger Act (12 U.S.C. 1828(c)) and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, this application is approved, subject to the condition noted in a separate communication to PNC.

August 20, 1993

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BANK OF OKLAHOMA, NATIONAL ASSOCIATION,
Tulsa, Oklahoma, and Heartland Federal Savings and Loan Association, Ponca City, Oklahoma

Names of institutions and type of transaction	Total assets
Bank of Oklahoma, National Association, Tulsa, Oklahoma (13679), with	$2,881,000,000
and Heartland Federal Savings and Loan Association, Ponca City, Oklahoma, with	87,000,000
merged October 9, 1993, under charter and title of the former. The merged bank at date of merger had	2,968,000,000

* * *

FIRST NATIONAL BANK AND TRUST COMPANY,
Ponca City, Oklahoma, and Heartland Federal Savings and Loan Association, Ponca City, Oklahoma

Names of institutions and type of transaction	Total assets
First National Bank and Trust Company, Ponca City, Oklahoma (13891), with	$153,000,000
and Heartland Federal Savings and Loan Association, Ponca City, Oklahoma, with	35,000,000
merged October 9, 1993, under charter and title of the former. The merged bank at date of merger had	188,000,000

* * *

Structure Tables

Changes in the structure of the national banking system, by state, January 1 to December 31, 1993

	In operation Dec. 31, 1992	Organized and opened for business	Merged	Voluntary liquidations	Payouts	12 U.S.C. 214 Converted to state banks	12 U.S.C. 214 Merged with state banks	In operation December 31 1993
Alabama	51	0	0	0	0	1	0	50
Alaska	4	0	0	0	0	0	0	4
Arizona	14	0	0	0	0	0	0	14
Arkansas	80	0	2	1	0	0	0	77
California	156	4	4	1	2	3	7	143
Colorado	185	2	14	1	0	8	5	159
Connecticut	14	0	0	0	0	1	1	12
Delaware	16	1	0	1	0	0	0	16
District of Columbia	21	0	2	0	0	0	0	19
Florida	146	1	4	1	0	2	8	132
Georgia	78	0	3	0	0	0	1	74
Hawaii	2	0	0	0	0	0	0	2
Idaho	4	0	0	0	0	0	0	4
Illinois	318	1	16	0	0	2	5	296
Indiana	80	1	8	0	0	1	0	72
Iowa	88	0	1	1	0	4	2	80
Kansas	143	2	2	1	0	1	1	140
Kentucky	85	2	2	0	0	1	0	84
Louisiana	42	0	1	0	0	0	0	41
Maine	7	0	0	0	0	0	0	7
Maryland	26	0	0	0	0	2	0	24
Massachusetts	25	0	0	0	0	0	0	25
Michigan	55	0	0	0	0	1	1	53
Minnesota	148	1	11	0	0	2	0	136
Mississippi	27	0	0	0	0	0	0	27
Missouri	79	1	4	0	0	3	1	72
Montana	33	0	1	1	0	3	0	28
Nebraska	107	1	1	2	0	1	0	104
Nevada	7	2	0	0	0	0	0	9
New Hampshire	10	0	0	0	0	0	0	10
New Jersey	44	0	2	0	0	0	1	41
New Mexico	37	0	1	0	0	1	1	34
New York	81	0	1	2	0	3	1	74
North Carolina	15	0	0	0	0	0	1	14
North Dakota	30	0	0	0	0	1	1	28
Ohio	122	4	7	0	0	0	0	119
Oklahoma	146	0	9	0	0	11	0	126
Oregon	7	0	0	0	0	0	0	7
Pennsylvania	146	1	4	0	0	2	4	137
Rhode Island	5	0	0	0	0	0	1	4
South Carolina	27	0	0	0	0	0	0	27
South Dakota	19	0	2	0	0	0	0	17
Tennessee	42	2	1	0	0	0	0	43
Texas	565	3	35	2	0	6	21	504
Utah	8	0	0	0	0	0	0	8
Vermont	10	0	0	0	0	0	0	10
Virginia	42	1	0	0	0	0	1	42
Washington	24	0	0	0	0	1	3	20
West Virginia	68	0	2	0	0	4	1	61
Wisconsin	95	3	1	0	0	0	1	96
Wyoming	27	0	6	0	0	0	0	21
Puerto Rico	1	0	0	0	0	0	0	1
United States	3,612	33	147	14	2	65	69	3,348

The column "organized and opened for business" includes all state banks converted to national banks, all newly formed national banks, and savings and loan associations converted to national banks. The column entitled "merged" includes all mergers, consolidations and purchases and assumptions in which an operating national bank was acquired by another national bank. Also included in this column are immediate FDIC-assisted "merger" transactions. The column entitled "voluntary liquidations" includes only straight liquidations of national banks. No liquidations pursuant to a purchase and assumption transaction are included in this total. Liquidations resulting from purchases and assumptions are included in the "merged" columns. The column entitled "payouts" includes all failed national banks where the FDIC is named receiver and no other depository institution is named as receiver. The column entitled "merged with state banks" includes all mergers, consolidations, and purchases and assumptions where the resulting institution is a state-chartered bank. Also included in this column are immediate FDIC-assisted "merger" transactions where the resulting institution is a state-chartered bank. Nationally chartered bridge banks are not included on this table

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993

Title and location of banks	Total assets
Alabama	
August 13:	
SouthTrust Bank, N.A., Montgomery, Alabama (15441), with	$353,520,000
and Pike County Bank, Troy, Alabama, with	66,411,000
merged under charter and title of the former. The merged bank at date of merger had	439,931,000
Arkansas	
May 28:	
Worthen National Bank of Arkansas, Little Rock, Arkansas (16009), with	$1,259,963,000
and Union National Bank of Arkansas, Little Rock, Arkansas (15602), with	551,324,000
merged under charter and title of the former. The merged bank at date of merger had	1,811,285,000
October 30:	
Worthen National Bank of Northwest Arkansas, Fayetteville, Arkansas (18781), with	$405,160,000
and First Bank, N.A., Bentonville, Arkansas (18327), with	92,004,000
merged under charter and title of the former. The merged bank at date of merger had	502,591,000
California	
March 4:	
Orange National Bank, Orange, California (16811), with	$174,665,000
and First American Capital Bank, N.A., Laguna Beach, California (17118), with	—
merged under charter and title of the former. The merged bank at date of merger had	—
May 20:	
Peninsula Bank, N.A., Rolling Hills Estate, California (22654), with	—
and Palos Verdes National Bank, Rolling Hills Estate, California (17266), with	—
merged under charter and title of the former. The merged bank at date of merger had	—
May 21:	
Westamerica Bank, N.A., San Rafael, California (11282), with	$1,372,930,000
and Suisun Valley Bank, Fairfield, California, with	70,765,000
merged under charter and title of the former. The merged bank at date of merger had	1,443,695,000
July 9:	
Valle de Oro Bank, N.A., Spring Valley, California (17676), with	—
and First California Bank, La Mesa, California, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
July 30:	
Escondido National Bank, Escondido, California (17280), with	$87,684,000
and San Marcos National Bank, San Marcos, California (18079), with	78,208,000
and Temecula Valley National Bank, Temecula, California (18773), with	23,356,000
merged under charter 17280 and title "Escondido National Bank." The merged bank at date of merger had	190,248,000
August 27:	
Bay Cities National Bank, Redondo Beach, California (17366), with	—
and Maritime Bank of California, Los Angeles, California, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
Colorado	
January 1:	
Vail National Bank, Vail, Colorado (16990), with	$45,268,000
and Cherry Creek National Bank—17th Street, Denver, Colorado (15449), with	23,569,000
merged under charter and title of the former. The merged bank at date of merger had	68,837,000
February 8:	
First National Bank of Brighton, Brighton, Colorado (18384), with	$13,296,000
and Valley Bank of Frederick, Frederick, Colorado, with	9,680,000
merged under charter 18384 and title "Valley Bank, N.A." The merged bank at date of merger had	22,976,000

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993 (continued)

Title and location of banks	*Total assets*
May 1:	
Colorado National Bank, Denver, Colorado (1651), with	$2,386,754,000
and Colorado National Bank--Pueblo, Pueblo, Colorado (1833), with	172,811,000
and Colorado National Bank—Fort Collins, Fort Collins, Colorado (16010), with	53,283,000
and Colorado National Bank—Longmont, Longmont, Colorado (7839), with	94,355,000
and Colorado National Bank—Exchange, Fort Collins, Colorado (3913), with	304,717,000
merged under charter 1651 and title "Colorado National Bank." The merged bank at date of merger had	2,948,681,000
May 8:	
Bank Western, N.A., Denver, Colorado (22621), with	$2,499,458,000
and Central Bank, N.A., Denver, Colorado (21860), with	2,227,244,000
merged under charter 22621 and title "Central Bank/Bank Western, N.A." The merged bank at date of merger had	4,726,702,000
May 28:	
Valley Bank, N.A., Brighton, Colorado (18384), with	$19,000,000
and Valley Bank of Lyons, Lyons, Colorado, with	8,543,000
merged under charter and title of the former. The merged bank at date of merger had	22,967,000
July 2:	
FirstBank of Westland, N.A., Lakewood, Colorado (15063), with	—
and Jefferson Bank and Trust, Lakewood, Colorado, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
July 24:	
Colorado National Bank, Denver, Colorado (1651), with	$2,948,681,000
and Colorado National Bank—Belmont, Pueblo, Colorado (15048), with	46,650,000
merged under charter and title of the former. The merged bank at date of merger had	2,995,331,000
July 24:	
Colorado National Bank, Denver, Colorado (1651), with	$2,995,331,000
and Central Bank of Pueblo, N.A., Pueblo, Colorado (17371), with	33,929,000
and Central Bank Southeast, N.A., Englewood, Colorado (17276), with	49,791,000
and Central Bank Grand Junction, N.A., Grand Junction, Colorado (13902), with	170,446,000
and CentralBank/Bank Western, N.A., Denver, Colorado (22621), with	4,726,792,000
merged under charter 1651 and title "Colorado National Bank." The merged bank at date of merger had	8,006,270,000
August 23:	
FirstBank of Lakewood, N.A., Lakewood, Colorado (17557), with	$33,240,000
and FirstBank of Villa Italia, N.A., Lakewood, Colorado (17037), with	46,739,000
merged under charter 17037 and title "FirstBank of Lakewood, N.A." The merged bank at date of merger had	79,979,000
August 23:	
FirstBank of Tech Center, N.A., Greenwood Village, Colorado (17460), with	$78,531,000
and FirstBank of Denver, N.A., Denver, Colorado (17556), with	36,690,000
merged under charter and title of the merger. The merged bank at date of merger had	115,221,000
August 23:	
FirstBank at Arapahoe/Yosemite, N.A., Englewood, Colorado (21676), with	$41,571,000
and FirstBank of Araphoe County, N.A., Littleton, Colorado (18057), with	39,500,000
merged under charter 21676 and title "FirstBank of Arapahoe County, N.A." The merged bank at date of merger had	81,071,000
November 17:	
The First National Bank of Strasburg, Strasburg, Colorado (11640), with	$54,246,000
and The Byers State Bank, Byers, Colorado, with	22,627,000
merged under charter and title of the former. The merged bank at date of merger had	76,873,000
District of Columbia	
June 23:	
Dominion Bank of Washington, N.A., Washington, DC (15127), with	$129,500,000
and First American Bank, N.A., Washington, DC (2038), with	1,189,363,000
merged under charter and title of the former. The merged bank at date of merger had	1,243,323,000

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993 (continued)

Title and location of banks	Total assets
June 25:	
Crestar Bank, N.A., Washington, DC (15605), with	$1,358,445,000
and City National Bank of Washington, Washington, DC (21536), with	—
merged under charter and title of the former. The merged bank at date of merger had	—
Florida	
March 15:	
Sun Bank/South Florida, N.A., Fort Lauderdale, Florida (14732), with	$2,376,981,000
and Flagler National Bank, West Palm Beach, Florida (16409), with	448,758,000
merged under charter and title of the former. The merged bank at date of merger had	2,806,056,000
June 15:	
Island National Bank of Palm Beach, Palm Beach, Florida (21618), with	$94,319,000
and Island National Trust Company, Palm Beach, Florida (18037), with	4,076,000
merged under charter 21618 and title "Island National Bank and Trust Company." The merged bank at date of merger had	98,395,000
October 12:	
National City Trust Company, West Palm Beach, Florida (17484), with	$1,138,000
and Florida Trust Service of Ohio Bancorp, with	2,024,000
merged under charter and title of the former. The merged bank at date of merger had	3,162,000
December 30:	
SouthTrust Bank of Southwest Florida, N.A., Cape Coral, Florida (20066), with	$164,328,000
and The National Bank of Lee County, Fort Myers, Florida (20942), with	73,414,000
merged under charter 20942 and title "SouthTrust Bank of Southwest Florida, N.A." The merged bank at date of merger had	237,743,000
December 31:	
First Union National Bank of Florida, Jacksonville, Florida (17695), with	$27,132,230,000
and The Enterprise Bank, N.A., Winter Park, Florida (21653), with	36,569,000
merged under charter and title of the former. The merged bank at date of merger had	27,170,558,000
Georgia	
September 24:	
Mountain National Bank, Tucker, Georgia (21549), with	$66,419,000
and Button-Gwinnett National Bank, Snellville, Georgia (22172), with	6,389,000
merged under charter and title of the former. The merged bank at date of merger had	72,443,000
October 31:	
First Union National Bank of Georgia, Atlanta, Georgia (21161), with	$9,297,555,000
and First American Bank of Georgia, N.A., Atlanta, Georgia (15541), with	106,712,000
merged under charter and title of the former. The merged bank at date of merger had	9,407,388,000
December 2:	
Bank South, N.A., Atlanta, Georgia (9617), with	$3,911,909,000
and Barnett Bank of Fayette County, Fayetteville, Georgia, with	93,318,000
merged under charter and title of the former. The merged bank at date of merger had	4,005,227,000
December 2:	
Bank South, N.A., Atlanta, Georgia (9617), with	$4,005,227,000
and Barnett Bank of Atlanta, Atlanta, Georgia, with	691,223,000
merged under charter and title of the former. The merged bank at date of merger had	4,723,174,000
December 31:	
The Summit National Bank, Atlanta, Georgia (21484), with	$84,669,000
and Vinings Bank & Trust, N.A., Atlanta, Georgia (21455), with	20,422,000
merged under charter and title of the former. The merged bank at date of merger had	104,264,000

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993 (continued)

Title and location of banks	Total assets
Illinois	
April 1:	
First of America Bank—Illinois, N.A., Peoria, Illinois (22084), with	$929,081,000
and Kewanee National Bank, Kewanee, Illinois (14708), with	27,006,000
merged under charter and title of the former. The merged bank at date of merger had	957,427,000
April 1:	
Bank One, Evanston, N.A., Evanston, Illinois (13709), with	$628,373,000
and Bank One, LaGrange, LaGrange, Illinois, with	592,379,000
and Bank One Elgin, Elgin, Illinois, with	102,710,000
and Bank One, Chicago, Chicago, Illinois, with	65,918,000
and Bank One, Wilmette, Wilmette, Illinois, with	310,007,000
merged under charter 13709 and title "Bank One, Chicago, N.A." The merged bank at date of merger had	1,719,965,000
April 17:	
The First National Bank of Chicago, Chicago, Illinois (8), with	$33,016,003,000
and Gary-Wheaton Bank of Downers Grove, N.A., Downers Grove, Illinois (22091), with	250,052,000
and Gary-Wheaton Bank of Fox Valley, N.A., Romeoville, Illinois (22088), with	232,188,000
merged under charter 8 and title "The First National Bank of Chicago." The merged bank at date of merger had	34,897,458,000
April 26:	
Palmer-American National Bank of Danville, Danville, Illinois (4731), with	$190,700,000
and The City National Bank of Hoopeston, Hoopeston, Illinois (13744), with	50,992,000
and The City National Bank of Danville, Danville, Illinois (16377), with	25,150,000
and City Potomac Bank, Potomac, Illinois, with	13,084,000
merged under charter 4731 and title "Palmer-American National Bank of Danville." The merged bank at date of merger had	279,926,000
May 3:	
First National Bank and Trust Company of Rockford, Rockford, Illinois (479), with	$703,173,000
and First Bank of Roscoe, Roscoe, Illnois, with	44,330,000
and First Bank of Loves Park, Loves Park, Illinois, with	52,413,000
merged under charter 479 and title "Bank One Rockford, N.A." The merged bank at date of merger had	799,916,000
May 8:	
American National Bank and Trust Company of Chicago, Chicago, Illinois (13216), with	$4,653,542,000
and American National Bank of Melrose Park, Melrose Park, Illinois (21601), with	95,920,000
merged under charter and title of the former. The merged bank at date of merger had	4,749,462,000
May 22:	
The First National Bank of Chicago, Chicago, Illinois (8), with	$33,016,003,000
and Gary-Wheaton Bank of Batavia, N.A., Batavia, Illinois (22090), with	151,393,000
and First Chicago Bank of Bloomingdale, N.A., Bloomingdale, Illinois (22085), with	185,819,000
and First Chicago Bank of St. Charles, N.A., St. Charles, Illinois (22089), with	133,110,000
merged under charter 8 and title "The First National Bank of Chicago." The merged bank at date of merger had	34,897,458,000
June 11:	
First of America Bank—Rockford, N.A., Rockford, Illinois (14533), with	$587,259,000
and First of America Bank—DeKalb, N.A., DeKalb, Illinois (21813), with	152,650,000
merged under charter 14533 and title "First of America Bank—North Central Illinois, N.A." The merged bank at date of merger had	844,354,000
June 19:	
The First National Bank of Chicago, Chicago, Illinois (8), with	$33,016,003,000
and Gary-Wheaton Bank, N.A., Wheaton, Illinois (22086), with	929,500,000
merged under charter and title of the former. The merged bank at date of merger had	34,897,458,000
July 28:	
American National Bank and Trust Company of Chicago, Chicago, Illinois (13216), with	$4,749,462,000
and American National Bank of Bensonville, Illinois (18206), with	236,039,000
merged under charter and title of the former. The merged bank at date of merger had	4,985,501,000

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993 (continued)

Title and location of banks	*Total assets*
August 9:	
Firstar Naper Bank, N.A., Naperville, Illinois (14115), with	$317,920,000
and Firstar Bank, Geneva, N.A., Geneva, Illinois (8740), with	190,268,000
merged under charter 14115 and title "Firstar Bank West, N.A." The merged bank at date of merger had	508,188,000
October 15:	
The First National Bank of Raymond, Raymond, Illinois (6910), with	$46,936,000
and State Bank of Girard, Girard, Illinois, with	19,379,000
and State Bank of Virden, Virden, Illinois, with	17,492,000
merged under charter 6910 and title "The First National Bank of Raymond." The merged bank at date of merger had	80,452,000
October 22:	
American National Bank and Trust Company of Chicago, Chicago, Illinois (13216), with	$4,492,476,000
and American National Bank of Arlington Heights, Arlington Heights, Illinois (14368), with	161,066,000
merged under charter and title of the former. The merged bank at date of merger had	4,653,542,000
December 6:	
Citizens First National Bank, Princeton, Illinois (2413), with	$234,139,000
and Citizens First National Bank of Peru, Peru, Illinois (22524), with	57,119,000
merged under charter and title of the former. The merged bank at date of merger had	291,258,000
December 17:	
The National Bank of Carmi, Carmi, Illinois (5357), with	$58,407,000
and The First National Bank of Crossville, Crossville, Illinois (8801), with	13,493,000
merged under charter and title of the former. The merged bank at date of merger had	71,900,000
Indiana	
January 1:	
Bank One Indianapolis, N.A., Indianapolis, Indiana (13758), with	$4,457,476,000
and Bank One Plainfield, N.A., Plainfield, Indiana (7011), with	159,203,000
merged under charter and title of the former. The merged bank at date of merger had	4,616,679,000
January 30:	
Merchants National Bank & Trust Company of Indianapolis, Indianapolis, Indiana (869), with	$3,107,414,000
and Anderson Banking Company, Anderson, Indiana, with	384,962,000
and Elston Bank & Trust Company, Crawfordsville, Indiana, with	130,376,000
and The National Bank of Greenwood, Greenwood, Indiana (14292), with	174,442,000
merged under charter 869 and title "National City Bank Indiana." The merged bank at date of merger had	3,728,147,000
February 19:	
NBD Bank, N.A., Gary, Indiana (14468), with	$1,567,175,000
and Summit Bank of Clinton County, Frankford, Indiana, with	125,449,000
and Summit Bank of Indianapolis, Indianapolis, Indiana, with	276,145,000
merged under charter 14468 and title "NBD Bank, N.A." The merged bank at date of merger had	1,968,769,000
February 27:	
National City Bank Indiana, Indianapolis, Indiana (869), with	$3,728,147,000
and Hancock Bank & Trust, Greenfield, Indiana, with	93,400,000
and Mid State Bank, Zionsville, Indiana, with	109,111,000
and Mid State Bank of Hendricks County, Danville, Indiana, with	125,316,000
and Union State Bank, Carmel, Indiana, with	196,998,000
merged under charter 869 and title "National City Bank Indiana." The merged bank at date of merger had	4,198,086,000
March 13:	
Star Bank, N.A., Eastern Indiana, Richmond, Indiana (1988), with	$339,264,000
and Star Bank, N.A., Southeastern Indiana, Lawrenceburg, Indiana (2612), with	109,126,000
merged under charter 1988 and title "Star Bank, N.A., Indiana." The merged bank at date of merger had	448,390,000
March 19:	
NBD Bank, N.A., Gary, Indiana (14468), with	$1,968,769,000
and Summit Bank of Marion, Marion, Indiana, with	180,061,000
and Summit Bank of Muncie, Muncie, Indiana, with	178,501,000
merged under charter 14468 and title "NBD Bank, N.A." The merged bank at date of merger had	2,327,331,000

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993 (continued)

Title and location of banks	Total assets
April 16:	
NBD Bank, N.A., Gary, Indiana (14468), with	$2,327,331,000
and Summit Bank, Fort Wayne, Indiana, with	1,674,098,000
merged under charter and title of the former. The merged bank at date of merger had	4,001,429,000
May 1:	
National City Bank Indiana, Indianapolis, Indiana (869), with	$4,198,086,000
and Batesville State Bank, Batesville, Indiana, with	72,834,000
and The Central National Bank of Greencastle, Greencastle, Indiana (2896), with	77,467,000
and The Farmers National Bank of Shelbyville, Shelbyville, Indiana (4800), with	154,985,000
and The Citizens National Bank of Tipton, Tipton, Indiana (7496), with	62,222,000
merged under charter 869 and title "National City Bank Indiana." The merged bank at date of merger had	4,530,081,000
June 18:	
NBD Bank, N.A., Gary, Indiana (14468), with	$4,001,429,000
and INB Banking Company North, Chesterton, Indiana, with	155,752,000
and INB National Bank Northwest, Lafayette, Indiana (14175), with	675,978,000
merged under charter 14468 and title "NBD Bank, N.A." The merged bank at date of merger had	4,833,159,000
July 23:	
NBD Bank, N.A., Gary, Indiana (14468), with	$4,833,159,000
and INB Banking Company Northeast, Fort Wayne, Indiana, with	207,629,000
merged under charter and title of the former. The merged bank at date of merger had	5,040,788,000
August 13:	
NBD Bank, N.A., Gary, Indiana (14468), with	$5,040,788,000
and INB Banking Company Southwest, Evansville, Indiana, with	129,189,000
merged under charter and title of the former. The merged bank at date of merger had	5,169,977,000
September 10:	
NBD Bank, N.A., Gary, Indiana, (14468), with	$5,169,977,000
and INB Banking Company, Jeffersonville, Indiana, with	660,552,000
merged under charter and title of the former. The merged bank at date of merger had	5,830,529,000
October 22:	
NBD Bank, N.A., Gary, Indiana (14468), with	$5,830,529,000
and INB National Bank, Indianapolis, Indiana (984), with	4,519,781,000
merged under charter 984 and title "NBD Bank, N.A." The merged bank at date of merger had	10,350,310,000
Iowa	
July 23:	
Norwest Bank Iowa, N.A., Des Moines, Iowa (2307), with	$4,237,234,000
and Davenport Bank and Trust Company, N.A., Davenport, Iowa (18462), with	1,410,406,000
merged under charter and title of the former. The merged bank at date of merger had	5,540,898,000
July 31:	
Liberty Bank and Trust, N.A., Pocahantas, Iowa (6550), with	$35,268,000
and Pomeroy State Bank, Pomeroy, Iowa, with	16,113,000
merged under charter and title of the former. The merged bank at date of merger had	49,321,000
November 1:	
Union National Bank, Massena, Iowa (20939), with	$12,441,000
and Corn Belt State Bank, Correctionville, Iowa, with	14,548,000
merged under charter and title of the former. The merged bank at date of merger had	26,989,000
Kansas	
January 9:	
The First National Bank of Phillipsburg, Phillipsburg, Kansas (3601), with	$93,529,000
and The First National Bank of Logan, Logan, Kansas (6841), with	4,589,000
merged under charter and title of the former. The merged bank at date of merger had	97 560 000

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993 (continued)

Title and location of banks	*Total assets*
January 29:	
The Farmers National Bank of Stafford, Stafford, Kansas (8883), with	$18,638,000
and The Buhler State Bank, Buhler, Kansas, with	12,365,000
merged under charter and title of the former. The merged bank at date of merger had	31,242,000
February 12:	
Bank IV Kansas, N.A., Wichita, Kansas (12490), with	$4,163,975,000
and The Southgate Bank, Prairie Village, Kansas, with	69,351,000
merged under charter and title of the former. The merged bank at date of merger had	4,566,045,000
April 2:	
First National Bank of Kansas, Overland Park, Kansas (22644), with	—
and College Boulevard National Bank, Overland Park, Kansas (17483), with	—
merged under charter and title of the former. The merged bank at date of merger had	—
April 2:	
Bank IV Kansas, N.A., Wichita, Kansas (12490), with	$4,653,236,000
and Midland Bank of Kansas, Mission, Kansas, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
April 12:	
First National Bank and Trust Company in Great Bend, Great Bend, Kansas (11707), with	$89,429,000
and The Raymond State Bank, Raymond, Kansas, with	6,793,000
merged under charter 11707 and title "First United National Bank and Trust Company." The merged bank at date of merger had	95,437,000
May 28:	
Bank IV Kansas, N.A., Wichita, Kansas (12490), with	$4,596,415,000
and The Farmers and Merchants State Bank of Derby, Derby, Kansas, with	62,168,000
merged under charter and title of the former. The merged bank at date of merger has	4,658,454,000
July 2:	
Sunflower Bank, N.A., Salina, Kansas (4742), with	$379,215,000
and City Bank and Trust Company, Wichita, Kansas, with	33,209,000
merged under charter and title of the former. The merged bank at date of merger had	409,975,000
July 9:	
First National Bank in Wichita, Wichita, Kansas (2782), with	$939,100,000
and Kansas State Bank and Trust Company, Wichita, Kansas, with	371,180,000
merged under charter 2782 and title "Intrust Bank, N.A." The merged bank at date of merger had	1,299,600,000
September 2:	
The Miami County National Bank, Paola, Kansas (3350), with	$112,327,000
and The American State Bank, Osawatomie, Kansas, with	15,742,000
merged under charter and title of the former. The merged bank at date of merger had	127,145,000
October 18:	
Commerce Bank, N.A., Bonner Springs, Kansas (18289), with	$9,617,000
and Commerce Bank, Leavenworth, Kansas, with	81,111,000
merged under charter and title of the former. The merged bank at date of merger had	90,728,000
December 31:	
The Stockton National Bank, Stockton, Kansas (7815), with	$37,002,000
and Rooks County State Bank, Woodston, Kansas, with	6,867,000
merged under charter and title of the former. The merged bank at date of merger had	43,419,000
Kentucky	
March 29:	
First National Bank of Louisville, Louisville, Kentucky (109), with	$5,129,806,000
and First Kentucky Trust Company, Louisville, Kentucky, with	187,017,000
merged under charter 109 and title "National City Bank Kentucky." The merged bank at date of merger had	5,147,654,000

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993 (continued)

Title and location of banks	*Total assets*
June 18:	
The First National Bank of Henderson, Henderson, Kentucky (13757), with	$70,412,000
and Citizens Bank of Henderson County, Henderson, Kentucky, with	26,107,000
merged under charter 13757 and title "Citizens Bank of Henderson County, N.A." The merged bank at date of merger had	96,519,000
October 1:	
Liberty National Bank and Trust Company of Louisville, Louisville, Kentucky (14320), with	$3,335,000
and Liberty National Bank of Lexington, Lexington, Kentucky (18786), with	235,000
merged under charter and title of the former. The merged bank at date of merger had	3,570,000
November 1:	
National City Bank Kentucky, Louisville, Kentucky (109), with	$5,094,016,000
and National City Bank Lexington, Lexington, Kentucky (2901), with	447,814.000
merged under charter and title of the former. The merged bank at date of merger had	5,541,830,000
Louisiana	
December 23:	
Premier Bank, N.A., Baton Rouge, Louisiana (13655), with	$3,841,000
and Alerion Bank, New Orleans, Louisiana, with	338,000
merged under charter and title of the former. The merged bank at date of merger had	4.178,000
December 31:	
The First National Bank of Lafayette, Lafayette, Louisiana (5023), with	$451,969,000
and First Acadiana National Bank, Landry Parish, Opelousas, Louisiana (16200), with	215,765,000
merged under charter and title of the former. The merged bank at date of merger had	667,734,000
Maryland	
October 27:	
First Union National Bank of Maryland, Rockville, Maryland (14864), with	$304,864,000
and First American Bank of Maryland, Silver Spring, Maryland, with	1,051,955,000
merged under charter and title of the former. The merged bank at date of merger had	1,418,603,000
December 1:	
Sandy Spring National Bank, Olney, Maryland (5561), with	$638,396,000
and First Montgomery Bank of Maryland, Gaithersburg, Maryland, with	36,017,000
merged under charter and title of the former. The merged bank at date of merger had	674,212,000
Minnesota	
January 1:	
The First American National Bank of Crookston, Crookston, Minnesota (2567), with	$147,608,000
and First American Bank of Warren, Warren, Minnesota, with	41,002,000
merged under charter 2567 and title "First American National Bank." The merged bank at date of merger had	186,610,000
March 12:	
Norwest Bank Minnesota Mesabi, N.A., Virginia, Minnesota (14536), with	$184,919,000
and Merchants & Miners State Bank of Hibbing, Hibbing, Minnesota, with	59,704,000
merged under charter and title of the former. The merged bank at date of merger had	247,041,000
May 28:	
Community First National Bank, Worthington, Minnesota (8989), with	$68,716,000
and Community First National Bank of Windom, Windom, Minnesota (5063), with	68,882,000
merged under charter and title of the former. The merged bank at date of merger had	139,708,000
June 12:	
First Bank, N.A., Minneapolis, Minnesota (710), with	$10,747,128,000
and Marquette Bank Minneapolis, N.A., Minneapolis, Minnesota (11861), with	2,121,072,000
merged under charter and title of the former. The merged bank at date of merger had	12,868,200,000
June 18:	
Norwest Bank Minnesota West, N.A., Moorhead, Minnesota (13297), with	$321,941,000
and Moorhead Bank, N.A., Moorhead, Minnesota (22585), with	34,285,000
merged under charter and title of the former. The merged bank at date of merger had	355,046,000

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993 (continued)

Title and location of banks	Total assets
September 24:	
The First National Bank, Keewatin, Minnesota (10903), with	$15,823,000
and State Bank of Conger, Conger, Minnesota, with	11,932,000
merged under charter 10903 and title "Americana National Bank." The merged bank at date of merger had	31,649,000
October 1:	
Community First National Bank of Benson, Benson, Minnesota (20497), with	$24,043,000
and Citizens Bank, Morris, Minnesota, with	38,619,000
merged under charter 20497 and title "Community First National Bank." The merged bank at date of merger had	62,651,000
October 8:	
First Bank, N.A., Minneapolis, Minnesota (710), with	$13,380,047,000
and First Bank Forest Lake, N.A., Forest Lake, Minnesota (16894), with	28,537,000
and First Bank North, N.A., Duluth, Minnesota (9327), with	343,520,000
and First Bank South, N.A., Mankato, Minnesota (1683), with	174,955,000
and First Bank Southeast, N.A., Rochester, Minnesota (579), with	520,069,000
and First Bank Central, N.A., St. Cloud, Minnesota (16744), with	286,558,000
and First Bank Minnesota, N.A., Virginia, Minnesota (6527), with	185,151,000
and First Bank Anoka, N.A., Wayzata, Minnesota (22514), with	68,384,000
merged under charter 710 and title "First Bank, N.A." The merged bank at date of merger had	14,871,783,000
December 3:	
Norwest Bank Minnesota, N.A., Minneapolis, Minnesota (2006), with	$15,097,106,000
and Bank of Spring Lake Park, N.A., Spring Lake Park, Minnesota (22664), with	58,260,000
merged under charter and title of the former. The merged bank at date of merger had	15,155,366,000
December 31:	
First National Bank, Chisholm, Minnesota (7647), with	$40,803,000
and Farmers and Merchants State Bank of Cook, Cook, Minnesota, with	8,991,000
merged under charter and title of the former. The merged bank at date of merger had	49,794,000
Mississippi	
July 31:	
Trustmark National Bank, Jackson, Mississippi (10523), with	$4,163,844,000
and UniSouth Banking Corporation, Columbus, Mississippi, with	171,070,000
merged under charter and title of the former. The merged bank at date of merger had	4,348,883,000
December 31:	
First Tennessee Bank, N.A., Mississippi, Southaven, Mississippi (22494), with	$3,077,000
and New South Bank, Como, Mississippi, with	34,594,000
merged under charter and title of the former. The merged bank at date of merger had	37,671,000
Missouri	
February 18:	
Mercantile Bank of Trenton, N.A., Trenton, Missouri (4933), with	$70,356,000
and American Bank of North Central Missouri, Trenton, Missouri, with	21,699,000
merged under charter and title of the former. The merged bank at date of merger had	92,055,000
April 23:	
Boatmen's First National Bank of Kansas City, Kansas City, Missouri (3456), with	$3,159,259,000
and Missouri Bridge Bank, N.A., Kansas City, Missouri (22597), with	1,253,966,000
merged under charter and title of the former. The merged bank at date of merger had	4,089,225,000
August 1:	
Commerce Bank of Springfield, N.A., Springfield, Missouri (21538), with	$670,364,000
and Security State Bank, Republic, Missouri, with	51,642,000
merged under charter and title of the former. The merged bank at date of merger had	722,006,000

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993 (continued)

Title and location of banks	*Total assets*
September 7:	
Bank Midwest, N.A., Maryville, Missouri (21815), with	$268,091,000
and Community Bank, N.A., Chillicothe, Missouri (18760), with	37,680,000
and First National Bank Kirksville, Kirksville, Missouri (5107), with	214,832,000
and Bank of Atchison County, Rock Port, Missouri, with	38,502,000
and Citizens National Bank of Shelbyville, Shelbyville, Missouri (21817), with	20,970,000
merged under charter 21815 and title "Bank Midwest, N.A." The merged bank at date of merger had	579,954,000
December 10:	
Commerce Bank, N.A., Springfield, Missouri (21538), with	$736,300,000
and Lawrence County Bank, Aurora, Missouri, with	32,863,000
merged under charter and title of the former. The merged bank at date of merger had	769,381,000
Montana	
January 1:	
The First National Bank of Glasgow, Glasgow, Montana (7990), with	$65,029,000
and The First National Bank of Hinsdale, Hinsdale, Montana (10910),with	7,409,000
merged under charter and title of the former. The merged bank at date of merger had	72,438,000
Nebraska	
January 14:	
Firstier Bank, N.A., Omaha, Nebraska (1633), with	$1,317,265,000
and Tri-County Bank & Trust Company, Bellevue, Nebraska, with	11,420,000
merged under charter and title of the former. The merged bank at date of merger had	1,327,805,000
January 19:	
The First National Bank in Ogallala, Ogallala, Nebraska (14374), with	$65,244,000
and United Nebraska Bank, Grant, Grant, Nebraska, with	46,114,000
merged under charter and title of the former. The merged bank at date of merger had	110,934,000
February 1:	
The First National Bank of Wisner, Wisner, Nebraska (4029), with	$26,191,000
and The Farmers National Bank of Madison, Madison, Nebraska (8317), with	11,845,000
merged under charter 4029 and title "First National Bank." The merged bank at date of merger had	37,190,000
March 27:	
Firstier Bank, N.A., Lincoln, Nebraska (1798), with	$1,016,885,000
and Lincoln State Bank, Lincoln, Nebraska, with	20,490,000
merged under charter and title of the former. The merged bank at date of merger had	1,035,708,000
July 1:	
First National Bank, Schuyler, Nebraska (15623), with	$60,865,000
and Howells Bank, Howells, Nebraska, with	20,871,000
merged under charter and title of the former. The merged bank at date of merger had	80,374,000
August 28:	
First National Bank and Trust Company of Columbus, Columbus, Nebraska (8328), with	$291,273,000
and Republic Bank of Nebraska, Columbus, Nebraska, with	7,483,000
merged under charter and title of the former. The merged bank at date of merger had	297,141,000
November 19:	
Norwest Bank Nebraska, N.A., Omaha, Nebraska (2978), with	$2,281,185,000
and Ralston Bank, Ralston, Nebraska, with	96,341,000
merged under charter and title of the former. The merged bank at date of merger had	2,373,526,000
New Jersey	
March 18:	
First Fidelity Bank, N.A., New Jersey, Newark, New Jersey (1452), with	$13,738,512,000
and First Fidelity Bank, N.A., South Jersey, Burlington Township, New Jersey (1222), with	2,217,905,000
merged under charter and title of the former. The merged bank at date of merger had	15,969,429,000

Title and location of banks	Total assets
June 19:	
Valley National Bank, Passaic, New Jersey (15790), with	$3,169,775,000
and Peoples Bank, N.A., Belleville, New Jersey (12019), with	234,687,000
merged under charter and title of the former. The merged bank at date of merger had	3,404,462,000
September 30:	
Commerce Bank, N.A., Cherry Hill, New Jersey (17094), with	$1,437,360,000
and The Coastal Bank, Ocean City, New Jersey, with	53,372,000
merged under charter and title of the former. The merged bank at date of merger had	1,490,732,000
December 20:	
New Jersey National Bank, Ewing Township, New Jersey (1327), with	$4,100,000,000
and Inter Community Bank, Springfield, New Jersey, with	128,900,000
merged under charter and title of the former. The merged bank at date of merger had	4,250,104,000
New Mexico	
January 1:	
The First National Bank of Santa Rosa, Santa Rosa, New Mexico (6081), with	$17,145,000
and The First National Bank in Tucumcari, Tucumcari, New Mexico (14081), with	63,000,000
merged under charter 6081 and title "The First National Bank of Tucumcari." The merged bank at date of merger had	80,051,000
New York	
January 1:	
The Chase Manhattan Bank, N.A., New York, New York (2370), with	$71,891,825,000
and Chase Lincoln First Bank, N.A., Rochester, New York (15627), with	4,974,890,000
merged under charter and title of the former. The merged bank at date of merger had	76,493,163,000
June 15:	
First Fidelity Bank, N.A., New York, Bronx, New York (22558), with	$357,657,000
and First Fidelity Trust Company New York, New York, New York, with	2,900,000
merged under charter and title of the former. The merged bank at date of merger had	360,557,000
June 16:	
Security Pacific National Trust Company, New York, New York (17681), with	$2,562,076,000
and BankAmerica Trust Company of New York, New York, New York, with	15,907,000
merged under charter and title "BankAmerica National Trust Company." The merged bank at date of merger had	2,577,983,000
August 11:	
First Fidelity Bank, N.A., New York, Bronx, New York (22558), with	$336,559,000
and Village Bank, Port Chester, New York, with	812,731,000
merged under charter and title of the former. The merged bank at date of merger had	1,149,290,000
December 30:	
First Fidelity Bank, N.A., New York, Bronx, New York (22558), with	$1,101,777,000
and Peoples Westchester Savings Bank, Hawthorne, New York, with	1,769,437,000
merged under charter and title of the former. The merged bank at date of merger had	2,956,897,000
Ohio	
February 26:	
The Security National Bank and Trust Company, Springfield, Ohio (6594), with	$459,347,000
and The Farmers and Traders Bank, Jamestown, Ohio, with	22,002,000
merged under charter and title of the former. The merged bank at date of merger had	478,754,000
April 30:	
The Citizens National Bank of Urbana, Urbana, Ohio (863), with	$110,541,000
and The Plain City Home and Savings Company, Plain City, Ohio, with	1,236,000
and The Farmers National Bank of Plain City, Plain City, Ohio (5522), with	6,470,000
merged under charter 863 and title "The Citizens National Bank of Urbana." The merged bank at date of merger had	116,142,000

Title and location of banks	Total assets
July 24:	
Star Bank, N.A., Cincinnati, Ohio (24), with	$5,270,057,000
and Star Bank, N.A., Hillsboro, Hillsboro, Ohio (17646), with	105,911,000
and Star Bank, N.A., Tri-State, Ironton, Ohio (16607), with	388,875,000
merged under charter 24 and title "Star Bank, N.A." The merged bank at date of merger had	5,707,285,000
August 21:	
Star Bank, N.A., Cincinnati, Ohio (24), with	$5,707,285,000
and Star Bank, Central Ohio, Columbus, Ohio, with	398,491,000
merged under charter and title of the former. The merged bank at date of merger had	6,102,251,000
September 18:	
Star Bank, N.A., Cincinnati, Ohio (24), with	$6,102,251,000
and Star Bank, N.A., Troy, Troy, Ohio (9336), with	227,254,000
and Star Bank, Preble County, Eaton, Ohio, with	74,555,000
merged under charter and title "Star Bank, N.A." The merged bank at date of merger had	6,381.663,000
October 16:	
Star Bank, N.A., Cincinnati, Ohio (24), with	$6,381.663,000
and Star Bank, N.A., Sidney, Ohio (5214), with	208,587,000
merged under charter and title of the former. The merged bank at date of merger had	6,564,931,000
Oklahoma	
February 28:	
Liberty Bank and Trust Company of Tulsa, N.A., Tulsa, Oklahoma (5171), with	$900,037,000
and First National Bank, Jenks, Jenks, Oklahoma (16057), with	35,530,000
merged under charter and title of the former. The merged bank at date of merger had	935,567,000
April 16:	
Midwest National Bank, Midwest City Oklahoma (16816), with	$34,959,000
and The National Bank of Harrah, Harrah, Oklahoma (18107), with	5,652,000
merged under charter and title of the former. The merged bank at date of merger had	40,611,000
May 10:	
Bank of Oklahoma, N.A., Tulsa, Oklahoma (13679), with	$2,634,854,000
and Sand Springs State Bank, Sand Springs, Oklahoma, with	64,615,000
merged under charter and title of the former. The merged bank at date of merger had	2,699,469,000
May 10:	
Bank of Oklahoma, N.A., Tulsa, Oklahoma (13679), with	$2,634,854,000
and Brookside State Bank, Tulsa, Oklahoma, with	114,416,000
merged under charter and title of the former. The merged bank at date of merger had	2,749,927,000
May 14:	
Bank IV Oklahoma, N.A., Tulsa, Oklahoma (18308), with	$1,022,929,000
and Guaranty Bank & Trust Company of Tulsa, Tulsa, Oklahoma, with	80,216,000
merged under charter and title of the former. The merged bank at date of merger had	1,106,187,000
May 28:	
Bank IV Oklahoma, N.A., Tulsa, Oklahoma (18308), with	$1,131,157,000
and Nichols Hills Bank and Trust Company, Oklahoma City, Oklahoma, with	103,005,000
merged under charter and title of the former. The merged bank at date of merger had	1,372,839,000
July 31:	
Liberty Bank and Trust Company of Oklahoma City, N.A., Oklahoma City, Oklahoma (11230), with	$1,518,000,000
and First Oklahoma Bank and Trust Company of Edmond, Edmond, Oklahoma, with	53,449,000
merged under charter and title of the former. The merged bank at date of merger had	1,567,000,000
September 17:	
Bank IV Oklahoma, N.A., Tulsa, Oklahoma (18308), with	$1,372,839,000
and Commercial Bank and Trust Company of Tulsa, Tulsa, Oklahoma, with	1,664.000
merged under charter and title of the former. The merged bank at date of merger had	1,444.545 000

Title and location of banks	Total assets
September 17:	
Bank IV Oklahoma, N.A., Tulsa, Oklahoma (18308), with	$1,444,545,000
and First Bank and Trust Company of Tahlequah, Tahlequah, Oklahoma, with	139,435,000
and First Bank and Trust Company of Fort Gibson, Fort Gibson, Oklahoma, with	18,144,000
and Commercial Bank and Trust Company, Muskogee, Oklahoma, with	224,620,000
merged under charter 18308 and title "Bank IV Oklahoma, N.A." The merged bank at date of merger had	1,822,651,000
October 4:	
Liberty Bank and Trust Company of Oklahoma City, N.A., Oklahoma City, Oklahoma (11230), with	$1,601,399,000
and The First National Bank of Edmond, Edmond, Oklahoma (6156), with	90,401,000
merged under charter and title of the former. The merged bank at date of merger had	1,684,427,000
October 14:	
First National Bank of Oklahoma, Tonkawa, Oklahoma (11397), with	$27,209,000
and Leadership Bank, N.A., Oklahoma City, Oklahoma (18245), with	1,889,000
merged under charter and title of the former. The merged bank at date of merger had	27,209,000
November 1:	
Liberty Bank and Trust Company of Oklahoma City, N.A., Oklahoma City, Oklahoma (11230), with	$1,547,025,000
and Liberty Bank of Midwest City, N.A., Midwest City, Oklahoma (20063), with	6,746,000
merged under charter and title of the former. The merged bank at date of merger had	1,553,771,000
November 8:	
The American National Bank and Trust Company of Sapulpa, Sapulpa, Oklahoma (7788), with	$206,000,000
and Limestone National Bank, Sand Springs, Oklahoma (18133), with	17,000,000
merged under charter and title of the former. The merged bank at date of merger had	210,000,000
November 30:	
Liberty Bank and Trust Company of Oklahoma City, N.A., Oklahoma City, Oklahoma (11230), with	$1,553,771,000
and Midwest National Bank, Midwest City, Oklahoma (16816), with	39,036,000
merged under charter and title of the former. The merged bank at date of merger had	1,592,807,000
December 3:	
Bank IV Oklahoma, N.A., Tulsa, Oklahoma (18308), with	$1,583,937,000
and Western National Bank of Tulsa, Tulsa, Oklahoma (16659), with	205,577,000
merged under charter and title of the former. The merged bank at date of merger had	1,791,240,000
December 10:	
Bank IV Oklahoma, N.A., Tulsa, Oklahoma (18308), with	$1,791,240,000
and Security Bank and Trust Company of Ponca City, Ponca City, Oklahoma, with	118,240,000
merged under charter and title of the former. The merged bank at date of merger had	1,910,202,000
December 10:	
The Peoples National Bank, Kingfisher, Oklahoma (9954), with	$111,778,000
and The Citizens National Bank and Trust Company, El Reno, Oklahoma (5985), with	46,177,000
merged under charter and title of the former. The merged bank at date of merger had	154,547,000
December 31:	
Liberty Bank and Trust Company of Tulsa, Tulsa, Oklahoma (5171), with	$848,845,000
and Bank of Tulsa, Tulsa, Oklahoma, with	68,348,000
merged under charter and title of the former. The merged bank at date of merger had	917,194,000
Pennsylvania	
February 4:	
Pittsburgh National Bank, Pittsburgh, Pennsylvania (252), with	$19,656,538,000
and Provident National Bank, Bryn Mawr, Pennsylvania (15422), with	7,902,777,000
merged under charter and title of the former. The merged bank at date of merger had	27,481,315,000
April 23:	
PNC Bank, N.A., Pittsburgh, Pennsylvania (252), with	$19,355,889,000
and Marine Bank, Warren, Pennsylvania, with	2,935,800,000
merged under charter and title of the former. The merged bank at date of merger had	22,291,689,000

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993 (continued)

Title and location of banks	*Total assets*
June 18:	
Fidelity Bank, N.A., Philadelphia, Pennsylvania (355), with	$7,989,440,000
and Merchants Bank (North), Wilkes-Barre, Pennsylvania, with	649,357,000
merged under charter and title of the former. The merged bank at date of merger had	8,638,797,000
June 18:	
Fidelity Bank, N.A., Philadelphia, Pennsylvania (355), with	$7,989,440,000
and Merchants Bank, N.A., Allentown, Pennsylvania (6645), with	1,854,844,000
merged under charter and title of the former. The merged bank at date of merger had	9,844,284,000
June 25:	
PNC Bank, N.A., Pittsburgh, Pennsylvania (252), with	$19,355,889,000
and PNC Bank Northeast Pennsylvania, Wilkes-Barre, Pennsylvania, with	2,018,406,000
merged under charter and title of the former. The merged bank at date of merger had	21,374,293,000
August 6:	
PNC Bank, N.A., Pittsburgh, Pennsylvania (252), with	$27,162,641,000
and First Bank and Trust Company, Mechanicsburg, Pennsylvania, with	177,070,000
merged under charter and title of the former. The merged bank at date of merger had	27,339,711,000
August 6:	
PNC Bank, N.A., Pittsburgh, Pennsylvania (252), with	$27,339,711,000
and The Hershey Bank, Hershey, Pennsylvania, with	230,148,000
merged under charter and title of the former. The merged bank at date of merger had	27,569,859,000
August 6:	
PNC Bank, N.A., Pittsburgh, Pensylvania (252), with	$27,569,859,000
and CCNB Bank, N.A., Camp Hill, Pennsylvania (14542), with	1,144,406,000
merged under charter and title of the former. The merged bank at date of merger had	28,714,265,000
August 16:	
CoreStates Bank, N.A., Philadelphia, Pennsylvania (1), with	$16,038,576,000
and CoreStates Hamilton Bank, Lancaster, Pennsylvania, with	2,762,558,000
merged under charter and title of the former. The merged bank at date of merger had	18,308,069,000
September 10:	
First National Bank of Western Pennsylvania, New Castle, Pennsylvania (562), with	$370,286,000
and Beaver Trust Company, Beaver, Pennsylvania, with	451,741,000
merged under charter 562 and title "First Western Bank, N.A." The merged bank at date of merger had	821,860,000
December 2:	
National Penn Bank, Boyertown, Pennsylvania (2137), with	$851,137,000
and Chesnut Hill National Bank, Philadelphia, Pennsylvania (18590), with	75,923,000
merged under charter and title of the former. The merged bank at date of merger had	927,060,000
South Dakota	
April 1:	
First Dakota National Bank, Yankton, South Dakota (2068), with	$171,367,000
and The McCook County National Bank of Salem, Salem, South Dakota (12784), with	42,557,000
merged under charter and title of the former. The merged bank at date of merger had	213,237,000
July 1:	
Citibank (South Dakota), N.A., Sioux Falls, South Dakota (16971), with	$6,943,076,000
and Citibank (Maryland), N.A., Towson, Maryland (18324), with	421,021,000
merged under charter and title of the former. The merged bank at date of merger had	7,355,021,000

Title and location of banks	Total assets
Tennessee	
June 23:	
First Union National Bank of Tennessee, Nashville, Tennessee (21619), with	$76,938,000
and Merchants and Planters Bank, Newport, Tennessee, with	163,142,000
and Dominion National Bank of Tennessee, Nashville, Tennessee (22649), with	1,567,924,000
and Dominion Trust Company of Tennessee, Nashville, Tennessee, with	1,586,000
and Citizens Union Bank, Rogersville, Tennessee, with	76,938,000
merged under charter 22649 and title "First Union National Bank of Tennessee." The merged bank at date of merger had	2,048,821,000
Texas	
February 13:	
Corpus Christi National Bank, Corpus Christi, Texas (4423), with	$674,016,000
and New First City Texas—Aransas Pass, Aransas Pass, Texas (22393), with	49,516,000
merged under charter and title of the former. The merged bank at date of merger had	719,500,000
February 13:	
Texas Commerce Bank—Midland, N.A., Midland, Texas (18304), with	$168,537,000
and New First City Texas—Midland, N.A., Midland, Texas (22452), with	303,483,000
merged under charter and title of the former. The merged bank at date of merger had	483,189,000
February 13:	
Texas Commerce Bank, N.A., Houston, Texas (10225), with	$10,078,105,000
and New First City Texas, N.A., Houston, Texas (18819), with	4,304,094,000
merged under charter and title of the former. The merged bank at date of merger had	12,624,388,000
February 13:	
Texas Commerce Bank, N.A., Houston, Texas (10225), with	$3,017,763,000
and New First City Dallas, N.A., Dallas, Texas (22391), with	1,254,910,000
merged under charter and title of the former. The merged bank at date of merger had	4,428,650,000
February 13:	
The Frost National Bank of San Antonio, San Antonio, Texas (5179), with	$2,473,413,000
and New First City Texas—Austin, N.A., Austin, Texas (22392), with	277,907,000
and New First City—San Antonio, N.A., San Antonio, Texas (22455), with	215,635,000
merged under charter 5179 and title "The Frost National Bank of San Antonio." The merged bank at date of merger had	2,987,668,000
February 13:	
First National Bank of West Texas, Lubbock, Texas (14208), with	$937,000,000
and New First City Texas—San Angelo, N.A., San Angelo, Texas (22454), with	119,000,000
merged under charter and title of the former. The merged bank at date of merger had	1,056,000,000
February 13:	
First National Bank of Olney, Olney, Texas (21478), with	$27,000,000
and New First City Texas—Graham, N.A., Graham, Texas (22450), with	87,000,000
merged under charter and title of the former. The merged bank at date of merger had	114,000,000
February 13:	
Lufkin National Bank, Lufkin, Texas (22628), with	$9,750,000
and New First City Texas—Lufkin, N.A., Lufkin, Texas (22451), with	145,803,000
merged under charter and title of the former. The merged bank at date of merger had	157,452,000
February 13:	
Tyler Bank and Trust, N.A., Tyler, Texas (22629), with	$15,400,000
and New First City Texas—Tyler, N.A., Tyler, Texas (22596), with	242,762,000
merged under charter and title of the former. The merged bank at date of merger had	260,424,000
February 14:	
Mercantile Bank, N.A., Brownsville, Texas (12236), with	$411,000,000
and New First City Texas—Corpus Christi, N.A., Corpus Christi, Texas (22448), with	365,000,000
merged under charter and title of the former. The merged bank at date of merger had	776,000,000

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993 (continued)

Title and location of banks	*Total assets*
February 24:	
Texas Commerce Bank—Beaumont, N.A., Beaumont, Texas (5825), with	$371,518,000
and New First City Texas—Beaumont, N.A., Beaumont, Texas (22446), with	499,392,000
merged under charter and title of the former. The merged bank at date of merger had	897,667,000
February 25:	
First National Bank in Cameron, Cameron, Texas (13731), with	$89,000,000
and The Planters National Bank of Rosebud, Rosebud, Texas (8066), with	—
merged under charter and title of the former. The merged bank at date of merger had	—
February 26:	
NationsBank of Texas, N.A., Dallas, Texas (21834), with	$32,862,510,000
and Financial Resource Management Trust Company, Dallas, Texas, with	3,000,000
merged under charter and title of the former. The merged bank at date of merger had	32,865,510,000
March 15:	
Overton Bank and Trust, N.A., Fort Worth, Texas (16716), with	$338,487,000
and First National Bank Mansfield, Mansfield, Texas (17201), with	44,505,000
merged under charter and title of the former. The merged bank at date of merger had	382,958,000
March 18:	
Kilgore First National Bank, Kilgore, Texas (12698), with	$104,350,000
and United Bank, N.A., Lancaster, Texas (11423), with	—
merged under charter and title of the former. The merged bank at date of merger had	—
March 23:	
Texas Bank, N.A., Lufkin, Texas (15187), with	$30,779,000
and First State Bank, Wells, Texas, with	11,723,000
and Bank of East Texas, Chester, Texas, with	8,414,000
merged under charter 15187 and title "Texas Bank, N.A." The merged bank at date of merger had	49,427,000
April 1:	
Lockwood National Bank of Houston, Houston, Texas (14815), with	$233,918,000
and Peoples National Bank, Pasadena, Texas (18486), with	56,125,000
and Community National Bank, Friendwood, Texas (17359), with	39,962,000
and Peoples Bank, Houston, Texas, with	21,121,000
merged under charter 14815 and title "Lockwood National Bank of Houston." The merged bank at date of merger had	339,515,000
April 9:	
Bank One Texas, N.A., Dallas, Texas (21969), with	$18,383,529,000
and United National Bank, Denton, Texas (18370), with	69,928,000
merged under charter and title of the former. The merged bank at date of merger had	18,449,650,000
April 16:	
First Interstate Bank of Texas, N.A., Houston, Texas (17612), with	$5,277,314,000
and First Interstate Bank of Jacksonville, Jacksonville, Texas, with	88,587,000
merged under charter and title of the former. The merged bank at date of merger had	5,341,169,000
June 10:	
Amarillo National Bank, Amarillo, Texas (14206), with	$711,164,000
and BancCentral Amarillo, Amarillo, Texas, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
July 1:	
The Royall National Bank of Palestine, Palestine, Texas (7170), with	$67,338,000
and Communitiy Bank, N.A., Lufkin, Texas (22639), with	41,851,000
merged under charter 22639 and title "The Royall National Bank of Palestine." The merged bank at date of merger had	106,383,000

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993 (continued)

Title and location of banks	*Total assets*
July 2:	
NationsBank of Texas, N.A., Dallas, Texas (21834), with	$34,377,850,000
and Westheimer National Bank, Houston, Texas (7991), with	25,401,000
merged under charter and title of the former. The merged bank at date of merger had	34,398,251,000
July 19:	
First National Bank of Kerrville, Kerrville, Texas (14861), with	$163,678,000
and Bank of Kerrville, Texas, with	53,558,000
merged under charter and title of the former. The merged bank at date of merger had	217,236,000
August 25:	
First Interstate Bank of Texas, N.A., Houston, Texas (17612), with	—
and Tarrant Bank, Fort Worth, Texas, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
September 17:	
Fidelity Bank, N.A., University Park, Texas (18073), with	$67,220,000
and Crown Charter National Bank, Dallas, Texas (18275), with	17,014,000
merged under charter and title of the former. The merged bank at date of merger had	83,615,000
September 24:	
First National Bank, Carrizo Springs, Texas (16703), with	$23,192,000
and Frio National Bank, Pearsall, Texas (18624), with	12,172,000
and Frontier State Bank, Eagle Pass, Texas, with	73,285,000
merged under charter 16703 and title "Camino Real Bank, N.A." The merged bank at date of merger had	109,861,000
October 1:	
First National Bank of West Texas, Lubbock, Texas (14208), with	$966,451,000
and Texas Commerce Bank, N.A., Lubbock, Texas (8208), with	154,043,000
merged under charter and title of the former. The merged bank at date of merger had	1,125,494,000
October 14:	
Corpus Christi National Bank, Corpus Christi, Texas (4423), with	$740,110,000
and Coastal Bend National Bank, Corpus Christi, Texas (17425), with	37,078,000
merged under charter and title of the former. The merged bank at date of merger had	772,147,000
October 14:	
Texas Commerce Bank New Braunfels, N.A., New Braunfels, Texas (4295), with	$153,240,000
and Plaza Bank, N.A., of New Braunfels, New Braunfels, Texas (21748), with	61,967,000
merged under charter and title of the former. The merged bank at date of merger had	214,930,000
October 15:	
Texas Commerce Bank, N.A., Houston, Texas (10225), with	$11,349,616,000
and Texas Commerce Bank Rio Grande Valley, N.A., McAllen, Texas (14635), with	777,059,000
merged under charter and title of the former. The merged bank at date of merger had	12,126,164,000
November 5:	
The Frost National Bank of San Antonio, San Antonio, Texas (5179), with	$2,587,206,000
and Cullen Center Bank and Trust, Houston, Texas, with	266,558,000
merged under charter and title of the former. The merged bank at date of merger had	3,193,115,000
November 13:	
Texas Commerce Bank, N.A., Houston, Texas (10225), with	$13,167,000,000
and Texas Commerce Bank Midland, N.A., Midland, Texas (18304), with	185,455,000
and Texas Commerce Bank Odessa, N.A., Odessa, Texas (22200), with	162,418,000
and Texas Commerce Bank El Paso, N.A., El Paso, Texas (12769), with	1,113,895,000
merged under charter 10225 and title "Texas Commerce Bank, N.A." The merged bank at date of merger had	14,628,768,000
November 19:	
Fidelity Bank, N.A., University Park, Texas (18073), with	$66,727,000
and Stemmons Northwest Bank, N.A., Dallas, Texas (18592), with	26,430,000
merged under charter and title of the former. The merged bank at date of merger had	91,701,000

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993 (continued)

Title and location of banks	Total assets
December 10:	
Texas Commerce Bank, N.A., Houston, Texas (10225), with	$14,628,768,000
and Texas Commerce Bank Dallas, N.A., Dallas, Texas (15328), with	4,186,246,000
and Texas Commerce Bank New Braunfels, N.A., New Braunfels, Texas (4295), with	150,410,000
and Texas Commerce Bank Austin, N.A., Austin, Texas (13926), with	777,041,000
and Texas Commerce Bank Beaumont, N.A., Beaumont, Texas (5825), with	807,556,000
and Texas Commerce Bank San Antonio, N.A., San Antonio, Texas (22201), with	351,156,000
merged under charter 10225 and title "Texas Commerce Bank, N.A." The merged bank at date of merger had	20,818,712,000
Utah	
April 1:	
First Security Bank of Utah, N.A., Ogden, Utah (2597, with	$3,931,183,000
and Dixie State Bank, St. George, Utah, with	78,666,000
merged under charter and title of the former. The merged bank at date of merger had	4,009,773,000
April 1:	
Valley Bank and Trust Company, N.A., Salt Lake City, Utah (18785), with	$828,929,000
and Valley Central Bank, Richfield, Utah, with	29,664,000
merged under charter and title of the former. The merged bank at date of merger had	858,593,000
October 29:	
Zions First National Bank, Salt Lake City, Utah (4341), with	$3,367,189,000
and Wasatch Bank, Orem, Utah, with	69,295,000
merged under charter and title of the former. The merged bank at date of merger had	3,428,529,000
November 30:	
First Security Bank of Utah, N.A., Ogden, Utah (2597), with	$4,488,100,000
and First Professional Bank, Salt Lake City, Utah, with	6,385,000
merged under charter and title of the former. The merged bank at date of merger had	4,493,348,000
Virginia	
February 11:	
Jefferson National Bank, Charlottesville, Virginia (6031), with	$1,742,018,000
and People's Bank of Virginia, Virginia Beach, Virginia, with	16,493,000
merged under charter and title of the former. The merged bank at date of merger had	1,759,007,000
July 22:	
Dominion Bank, N.A., Roanoke, Virginia (2737), with	$5,786,656,000
and First Union Bank of Virginia, Vienna, Virginia, with	27,674,000
and Dominion Trust Company, Roanoke, Virginia, with	6,965,000
merged under charter 2737 and title "Dominion Bank, N.A." The merged bank at date of merger had	6,002,872,000
October 27:	
First Union National Bank of Virginia, Roanoke, Virginia (2737), with	$6,369,701,000
and First American Bank of Virginia, McLean, Virginia, with	2,432,742,000
merged under charter and title of the former. The merged bank at date of merger had	8,917,574,000
West Virginia	
January 1:	
United National Bank, Parkersburg, West Virginia (1427), with	$880,795,000
and United National Bank—Central, Glenville, West Virginia (13634), with	180,706,000
merged under charter and title of the former. The merged bank at date of merger had	1,220,849,000
January 4:	
First West Virginia Bank, N.A., Wheeling, West Virginia (16248), with	$61,179,000
and Wellsburg Banking and Trust Company, Wellsburg, West Virgina, with	19,972,000
merged under charter and title of the former. The merged bank at date of merger had	80,734,000
July 12:	
The City National Bank of Charleston, Charleston, West Virginia (14807), with	$163,378,000
and The Bank of Cross Lanes, Cross Lanes, West Virginia, with	44,206,000
merged under charter and title of the former. The merged bank at date of merger had	207,862,000

Title and location of banks	Total assets
July 23:	
Charleston National Bank, Charleston, West Virginia (3236), with	$478,489,000
and Ameribank, Charleston, Charleston, West Virginia, with	15,165,000
merged under charter and title of the former. The merged bank at date of merger had	492,570,000
August 19:	
Commerce Bank, Charleston, N.A., Charleston, West Virginia (13509), with	$511,586,000
and Commerce Bank, Man, Man, West Virginia, with	59,828,000
merged under charter and title of the former. The merged bank at date of merger had	572,831,000
September 1:	
United National Bank, Parkersburg, West Virginia (1427), with	$1,022,207,000
and First Bank of Ceredo, Ceredo, West Virginia, with	142,119,000
merged under charter and title of the former. The merged bank at date of merger had	1,162,503,000
September 10:	
United National Bank, Parkersburg, West Virginia (1427), with	$1,343,854,000
and CB&T—Westover Bank, Westover, West Virginia, with	64,129,000
merged under charter and title of the former. The merged bank at date of merger had	1,406,989,000
November 19:	
The First National Bank of Morgantown, Morgantown, West Virginia (14396), with	$412,431,000
and Community Bank and Trust Company of Harrison County, Clarksburg, West Virginia, with	563,931,000
merged under charter 14396 and title "Huntington National Bank West Virginia." The merged bank at date of merger had	1,109,668,000
Wisconsin	
January 1:	
Kellogg-Citizens National Bank of Green Bay, Green Bay, Wisconsin (2132), with	$774,241,000
and First National Bank of Sturgeon Bay, Wisconsin (15633), with	55,521,000
merged under charter 2132 and title "Associated Bank Green Bay, N.A." The merged bank at date of merger had	824,373,000
February 12:	
Firstar Bank, Lake Geneva, N.A., Lake Geneva, Wisconsin (14873), with	$52,323,000
and Firstar Bank Elkhorn, Elkhorn, Wisconsin, with	55,535,000
merged under charter and title of the former. The merged bank at date of merger had	107,858,000
June 30:	
Associated Bank Green Bay, N.A., Green Bay, Wisconsin (2132), with	$799,028,000
and Farmers State Bank, Pound, Wisconsin, with	70,727,000
merged under charter and title of the former. The merged bank at date of merger had	864,185,000
October 22:	
Norwest Bank Wisconsin, N.A., Milwaukee, Wisconsin (15057), with	$1,261,329,000
and University Bank, Green Bay, Wisconsin, with	175,470,000
merged under charter and title of the former. The merged bank at date of merger had	1,435,393,000
November 30:	
First National Bank and Trust, Monroe, Wisconsin (230), with	$144,910,000
and Citizens State Bank, Belleville, Wisconsin, with	29,741,000
merged under charter and title of the former. The merged bank at date of merger had	174,651,000
Wyoming	
April 16:	
Norwest Bank Wyoming Casper, N.A., Casper, Wyoming (10533), with	$198,213,000
and Norwest Bank Wyoming Cheyenne, N.A., Cheyenne, Wyoming (2652), with	131,198,000
and Norwest Bank Wyoming Gillette, N.A., Gillette, Wyoming (16390), with	31,543,000
and Norwest Bank Wyoming Wheatland, N.A., Wheatland, Wyoming (15565), with	36,373,000
merged under charter 10533 and title "Norwest Bank Wyoming, N.A." The merged bank at date of merger had	397,327,000

Mergers consummated involving two or more operating banks, January 1 to December 31, 1993 (continued)

Title and location of banks	*Total assets*
July 9:	
First National Bank in Worland, Worland, Wyoming (14841), with	$53,141,000
and First National Bank at Thermopolis, Wyoming (14404), with	36,064,000
merged under charter 14841 and title "First National Bank." The merged bank at date of merger had	89,860,000
August 20:	
Hilltop National Bank, Casper, Wyoming (15359), with	$113,765,000
and Mountain Plaza National Bank, Casper, Wyoming (16954), with	27,078,000
merged under charter and title of the former. The merged bank at date of merger had	140,814,000
September 17:	
First National Bank of Powell, Powell, Wyoming (10265), with	$101,114,000
and Lovell National Bank, Lovell, Wyoming (20245), with	7,658,000
merged under charter and title of the former. The merged bank at date of merger had	108,726,000

Mergers consummated involving national banks and savings and loan associations, January 1 to December 31, 1993

Title and location of banks	Total assets
Alabama	
July 23:	
SouthTrust Bank of Dothan, N.A., Dothan, Alabama (5249), with	—
and First Federal Savings and Loan Association of Russell County, Phenix City, Alabama, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
California	
February 19:	
Clear Lake National Bank, Clearlake, California (20254), with	$31,000,000
and HomeFed Bank, F.A., San Diego, California, with	11,828,000
merged under charter and title of the former. The merged bank at date of merger had	42,828,000
September 10:	
Community First National Bank, Pleasanton, California (21446), with	—
and Amador Valley Savings and Loan Association, Pleasanton, California, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
Florida	
July 22:	
First Union National Bank of Florida, Jacksonville, Florida (17695), with	$27,777,317,000
and Meritor Savings, F.A., Winter Haven, Florida, with	1,172,337,000
merged under charter and title of the former. The merged bank at date of merger had	28,949,709,000
Georgia	
February 17:	
SouthTrust Bank of Atlanta, N.A., Atlanta, Georgia (22520), with	$1,855,839,000
and Prime Bank, F.S.B., Decatur, Georgia, with	665,124,000
merged under charter and title of the former. The merged bank at date of merger had	2,520,963,000
March 1:	
First Union National Bank of Georgia, Atlanta, Georgia (21161), with	$4,140,211,000
and Decatur Federal Savings and Loan Association, Decutur, Georgia, with	2,582,831,000
merged under charter and title of the former. The merged bank at date of merger had	6,723,042,000
June 12:	
First Union National Bank of Georgia, Atlanta, Georgia (21161), with	$6,853,030,000
and Georgia Federal Bank, Atlanta, Georgia, with	4,307,487,000
merged under charter and title of the former. The merged bank at date of merger had	9,718,943,000
November 5:	
NationsBank of Georgia, N.A., Atlanta, Georgia (13068), with	—
and First Federal Savings Bank of Georgia, Winder, Georgia, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
November 5:	
SouthTrust Bank of Georgia, N.A., Atlanta, Georgia (22520), with	—
and First Federal Savings Bank of Georgia, Winder, Georgia, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
Illinois	
January 14:	
The First National Bank of Harrisburg, Harrisburg, Illinois (4003), with	$127,565,000
and Bank South, F.S.B., Harrisburg, Illinois, with	53,444,000
merged under charter and title of the former. The merged bank at date of merger had	181,009,000
June 30:	
First of America Bank—McClean County, N.A., Bloomington, Illinois (14178), with	$191,133,000
and Champion Federal Savings and Loan Association, Bloomington, Illinois, with	2,092,603,000
merged under charter and title of the former. The merged bank at date of merger had	2,297,575,000

Mergers consummated involving national banks and savings and loan associations, January 1 to December 31, 1993 (continued)

Title and location of banks	Total assets
July 8:	
The First National Bank in Staunton, Staunton, Illinois (14310), with	$88,693,000
and Benld Loan Association, Benld, Illinois, with	5,080,000
merged under charter and title of the former. The merged bank at date of merger had	92,692,000
Indiana	
January 1:	
American National Bank and Trust Company of Muncie, Muncie, Indiana (14921), with	$211,059,000
and Muncie Federal Savings Bank, Muncie, Indiana, with	128,708,000
merged under charter and title of the former. The merged bank at date of merger had	338,496,000
Mississippi	
July 12:	
Britton & Koontz First National Bank, Natchez, Mississippi (13722), with	$88,953,000
and Natchez First Federal Savings Bank, Natchez, Mississippi, with	46,477,000
merged under charter and title of the former. The merged bank at date of merger had	138,710,000
Nebraska	
October 29:	
Firstier Bank, N.A., Omaha, Nebraska (1633), with	$1,473,783,000
and Firstier Savings Bank, F.S.B., Omaha, Nebraska, with	135,872,000
merged under charter and title of the former. The merged bank at date of merger had	1,600,387,000
New Jersey	
January 29:	
Valley National Bank, Passaic, New Jersey (15790), with	$2,760,485,000
and Mayflower Savings Bank, Savings and Loan Association, Livingston, New Jersey, with	135,988,000
merged under charter and title of the former. The merged bank at date of merger had	2,897,235,000
North Carolina	
January 29:	
Southern National Bank of North Carolina, Lumberton, North Carolina (10610), with	$3,662,545,000
and First Federal Savings Bank, Winston-Salem, North Carolina, with	409,441,000
merged under charter and title of the former. The merged bank at date of merger had	4,071,986,000
October 7:	
Southern National Bank of North Carolina, Lumberton, North Carolina (10610), with	$4,160,121,000
and East Coast Savings Bank, Goldsboro, North Carolina, with	256,488,000
merged under charter and title of the former. The merged bank at date of merger had	4,440,701,000
October 8:	
NationsBank of North Carolina, N.A., Charlotte, North Carolina (13761), with	$24,549,000,000
and First American Federal Savings Bank, Greensboro, North Carolina, with	14,261,000
merged under charter and title of the former. The merged bank at date of merger had	24,562,130,000
Ohio	
April 30:	
The Citizens National Bank of Urbana, Urbana, Ohio (863), with	$110,541,000
and The Plain City Home and Savings Company, Plain City, Ohio, with	1,236,000
and The Farmers National Bank of Plain City, Plain City, Ohio, with	6,470,000
merged under charter 863 and title "The Citizens National Bank of Urbana." The merged bank at date of merger had	116,142,000
May 7:	
The Huntington National Bank, Columbus, Ohio (7745), with	$10,502,893,000
and Charter Oak Federal Savings Bank, Cincinnati, Ohio, with	456,788,000
merged under charter and title of the former. The merged bank at date of merger had	10,965,640,000
November 19:	
PNC Bank, Ohio, N.A., Cincinnati, Ohio (16416), with	$3,582,869,000
and Gateway Federal Savings Bank, Cincinnati, Ohio, with	503,995,000
merged under charter and title of the former. The merged bank at date of merger had	4,064,471,000

Mergers consummated involving national banks and savings and loan associations, January 1 to December 31, 1993 (continued)

Title and location of banks	Total assets
Oklahoma	
May 21:	
Boatmen's First National Bank of Oklahoma, Oklahoma City, Oklahoma (21296), with	—
and Cimarron Federal Savings Association, Muskogee, Oklahoma, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
May 21:	
The American National Bank of Bristow, Bristow, Oklahoma (10849), with	—
and Cimarron Federal Savings Association, Muskogee, Oklahoma, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
October 9:	
Bank of Oklahoma, N.A., Tulsa, Oklahoma (13679), with	$2,881,000,000
and Heartland Federal Savings and Loan Association, Ponca City, Oklahoma, with	87,000,000
merged under charter and title of the former. The merged bank at date of merger had	2,968,000,000
October 9:	
First National Bank and Trust Company, Ponca City, Oklahoma (13891), with	$153,000,000
and Heartland Federal Savings and Loan Association, Ponca City, Oklahoma, with	35,000,000
merged under charter and title of the former. The merged bank at date of merger had	188,000,000
Pennsylvania	
August 27:	
PNC Bank, N.A., Pittsburgh, Pennsylvania (252), with	—
and Home Unity Federal Savings and Loan Association, Lafayette Hill, Pennsylvania, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
South Carolina	
February 19:	
First Union National Bank of South Carolina, Greenville, South Carolina (21183), with	$1,434,319,000
and South Carolina Federal Savings Bank, Columbia, South Carolina, with	860,231,000
merged under charter and title of the former. The merged bank at date of merger had	2,290,289,000
September 24:	
SouthTrust Bank of Charleston, N.A., Charleston, South Carolina (21875), with	—
and First South Savings Bank, F.S.B., Columbia, South Carolina, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
September 24:	
The National Bank of South Carolina, Sumter, South Carolina (10660), with	—
and Standard Federal Savings and Loan Association, Columbia, South Carolina, with	—
merged under charter and title of the former. The merged bank at date of merger had	—
South Dakota	
January 31:	
First National Bank in Brookings, Brookings, South Dakota (12838), with	$201,902,000
and Home Trust Savings and Loan Association, Vermillion, South Dakota, with	29,473,000
merged under charter and title of the former. The merged bank at date of merger had	229,345,000
Tennessee	
June 25:	
First Tennessee Bank, N.A., Memphis, Tennessee (336), with	$7,919,505,000
and Home Federal Bank, F.S.B., Johnson City, Tennessee, with	884,615,000
merged under charter and title of the former. The merged bank at date of merger had	8,803,895,000
West Virginia	
September 17:	
The Merchants National Bank, Montgomery, West Virginia (9749), with	—
and Evergreen Federal Savings and Loan Association, Charleston, West Virginia, with	—
merged under charter and title of the former. The merged bank at date of merger had	—

Applications for new national bank charters, approved and rejected by states, July 1 to December 31, 1993

Title and location of bank	Approved	Rejected
California		
Empire National Bank, Ontario		August 20
Colorado		
Aspen Valley Bank, National Association, Aspen	November 18	
Indiana		
The National Bank of Indianapolis, Indianapolis	September 9	
Kansas		
MOCC National Bank, Lenexa	August 12	
Missouri		
Mercantile Trust Company, St. Louis	September 3	
Nebraska		
First National Bank, Norfolk, Norfolk	August 2	
Texaco Credit Card Bank, Omaha	August 12	
Nevada		
Household Bank, National Association, Las Vegas	November 30	
New York		
Waterhouse National Bank, White Plains	August 19	
North Carolina		
First Union Home Equity Bank, Charlotte	December 17	
Ohio		
Credit First, National Association, Brook Park	August 12	
South Dakota		
Retailers National Bank, Sioux Falls	August 12	
Texas		
Graham National Bank, Graham	August 10	
Midland National Bank, Midland	August 24	
Washington		
Fremont First National Bank, Seattle	September 27	

New national bank charters issued, July 1 to December 31, 1993

Title and location of bank	*Charter number*	*Date opened*
Delaware		
JCPenney Card Bank, National Association, Harrington	22465	July 16
Florida		
Suntrust Bankcard, National Association, Orlando	22626	July 6
Indiana		
The National Bank of Indianapolis, Indianapolis	22652	December 8
Missouri		
Mercantile Trust Company, St. Louis	22666	November 1
Nebraska		
First National Bank, Norfolk, Norfolk	18820	December 6
Nevada		
Household Bank, National Association, Las Vegas	22675	December 1
Ohio		
FDS National Bank, Deerfield Township	22579	September 8
Credit First, National Association, Brook Park	22594	October 19
Texas		
Midland National Bank, Midland	22650	October 1

State-chartered banks converted to national banks, July 1 to December 31, 1993

Title and location of bank	*Effective date*	*Total assets*
California		
Republic Bank California, N.A. (22663), conversion of Safrabank, Beverly Hills	September 20	$84,694,000
Texas		
Community Bank, N.A. (22639), conversion of Community State Bank, Lufkin	July 1	41,851,000
Virginia		
Central Fidelity National Bank (22667), conversion of Central Fidelity Bank, Richmond	December 31	8,498,460,000

Savings and loan associations converted to national banks, July 1 to December 31, 1993

Title and location of bank	*Effective date*	*Total assets*
Kentucky		
First American National Bank of Bowling Green (22665), conversion of First Federal Savings and Loan Association, Bowling Green	October 1	$222,029,000
Ohio		
Amerifirst Bank, N.A., (22623), conversion of Home Federal Savings Bank, Xenia	September 30	195,362,000
Pennsylvania		
PNC Mortgage Bank (22670), conversion of Sears Savings Bank, F.S.B., Pittsburgh	November 30	6,290,834,000

National banks converted to state banks, July 1 to December 31, 1993

Title and location of bank	*Effective date*	*Total assets*
Alabama		
Compass Bank of Calhoun County, N.A., Anniston (21470)	December 31	$130,941,000
California		
Bank of Lake County, N.A., Lakeport (18747)	December 31	1,111,000
Metropolitan National Bank, Oakland (20886)	July 1	35,641,000
Colorado		
Colonial National Bank, Denver (17459)	November 8	26,000,000
Durango National Bank, Durango (17878)	July 1	10,393,000
Colorado National Bank of Glenwood, Glenwood Springs (17475)	July 2	44,000,000
Colorado National Bank Grand Junction, Grand Junction (17477)	July 2	59,507,000
Connecticut		
First National Bank of Stamford, Stamford (18556)	July 1	74,735,000
Florida		
Jefferson National Bank, Miami Beach (15278)	December 1	227,012,000
Illinois		
Steel City National Bank, Chicago (14661)	August 17	120,700,000
First National Bank, Washington (14927)	August 31	43,539,000
Iowa		
First Iowa National Bank, Monticello (22211)	December 30	13,089,000
Cedar National Bank, St. Ansgar (18005)	December 31	9,700,000
First National Bank of West Des Moines, West Des Moines (5891)	December 31	39,895,000
Michigan		
First Bank, Upper Michigan, National Association, Gladstone (14111)	December 27	29,390,000
Minnesota		
The American National Bank of Nashwauk, Nashwauk (11579)	July 26	20,900,000
Missouri		
First National Bank of Annapolis, Annapolis (15454)	December 10	13,589,000
Montana		
First National Bank of Geraldine, Geraldine (10803)	July 1	11,554,000
First National Bank of Plains, Plains (7172)	October 21	25,603,000
New Mexico		
First Sierra National Bank, Truth or Consequences (16682)	December 1	26,000,000
New York		
Marine Midland Bank, National Association, Buffalo (16833)	December 31	16,770,000,000
North Dakota		
The McKenzie County National Bank, Watford City (17291)	July 1	20,500,000
Oklahoma		
First National Bank of Chandler, Chandler (5354)	October 1	33,000,000
Citizens National Bank & Trust Company, Okmulgee (13751)	July 1	69,000,000
First National Bank of Porter, Porter (7615)	October 1	8,000,000
City National Bank, Weatherford (17881)	July 1	52,000,000
State National Bank of Weleetka, Weleetka (12074)	July 1	140,000,000
Texas		
First National Bank of Pearland, Pearland (16600)	August 1	44,000,000
Texas City Bank, N.A., Texas City (10040)	August 1	94,000,000
Washington		
Enterprise Bank of Bellevue, N.A., Bellevue (21879)	December 15	109,000,000
West Virginia		
American Trust Bank, West Virginia, N.A., Keyser (13831)	December 30	9,999,000

National banks merged into state banks, July 1 to December 31, 1993

Title and location of bank	Charter number	Effective date
California		
Mid City Bank, N.A., Brea	17732	October 21
Cal-West National Bank, Moreno Valley	17536	September 24
Colorado		
FirstBank of Colorado, N.A., Littleton	16942	August 23
FirstBank Wadsworth, N.A., Littleton	18293	August 23
FirstBank of Longmont, N.A., Longmont	15987	August 23
Florida		
Bank of Florida, N.A., Chiefland	17773	November 11
First National Bank of Clearwater, Clearwater	12905	October 14
Jefferson National Bank of Sunny Isles, Miami Beach	15474	December 1
Central National Bank, Sarasota	20011	September 1
First National Bank of the South, Wesley Chapel	18061	December 10
Georgia		
Clayton National Bank, Morrow	22002	November 12
Illinois		
Berwyn National Bank, Berwyn	14381	July 9
First National Bank of Cicero, Cicero	11662	July 9
First National Bank in Harvey, Harvey	14372	July 9
Eagle Bank Champaign, N.A., Rantoul	5193	July 1
Winchester National Bank, Winchester	14140	August 27
Iowa		
City National Bank of Cedar Rapids, Cedar Rapids	14799	November 19
Missouri		
The Farmers National Bank Ridgway, Bethany	12674	September 13
North Dakota		
First International Bank & Trust, N.A., Fessenden	5408	December 1
Pennsylvania		
First National Bank of Bath, Bath	5444	December 10
The First National Bank of Pike County, Milford	5496	July 12
Watsontown National Bank, Watsontown	2483	December 1
Rhode Island		
Centreville National Bank of Warwick, West Warwick	1284	December 31
Texas		
Equitable Bank, N.A., Arlington	18208	November 22
NorthPark National Bank of Dallas, Dallas	15529	September 3
Hamilton National Bank, Hamilton	4451	August 31
Fidelity National Bank, Houston	17961	July 22
Rancho Viejo National Bank, Olmito	20069	September 3
Salado National Bank, Salado	16774	September 30
Spring National Bank, Spring	18627	November 2
Sugar Creek National Bank, Sugar Land	16655	October 29
Wolfe City National Bank, Wolfe City	13199	July 29
Virginia		
New Atlantic Bank, N.A., Norfolk	22155	August 12
Washington		
Columbia National Bank, Longview	16214	August 16
Northwestern National Bank, Port Angeles	16041	July 22

National banks liquidated under emergency procedures, July 1 to December 31, 1993

Title and location of bank	*Charter number*	*Effective date*
California		
Western United National Bank, Los Angeles	17897	September 24

*National banks in voluntary liquidation, July 1 to December 31, 1993**

Title and location of bank	*Charter number*	*Effective date*
Arkansas		
First National Bank of Fayetteville, Fayetteville	7346	December 31
California		
First Interstate Bancard Co., N.A., Simi Valley	17545	September 20
Colorado		
Union National Bank of Colorado, Denver	18009	September 30
Florida		
Midlantic National Bank & Trust Co. Florida, West Palm Beach	17566	December 20
Iowa		
Nodaway Valley National Bank, Villisca	14041	August 9
Kansas		
First National Bank of Manhattan, Manhattan	3782	September 30
Montana		
Richey National Bank, Richey	15902	September 8
Nebraska		
The Otoe County Bank & Trust, Nebraska City	1417	September 22
New York		
New York Capital Bank, N.A., New York City	22295	August 10

**The banks included on this list are in voluntary liquidation and are permanently closing. They are not to be confused with banks that are "merging" under a purchase and assumption transaction.*

Mergers consummated involving a single operating bank, July 1 to December 31, 1993

Date Consummated	*Merging banks* *Resulting bank*	*Total assets*
	California	
	Marin Community Bank, National Association, San Rafael	
	Metro Commerce Interim National Bank, San Rafael	
September 30	Metro Commerce Bank, National Association, San Rafael (21982)	$63,500,000
	Colorado	
	FirstAmerican Bank, National Association, Colorado Springs	
	Norwest Interim Bank Colorado, National Association, Colorado Springs	
October 29	FirstAmerican Bank, National Association, Colorado Springs (18526)	$46,970,000
	Florida	
	First National Bank of Lake Park, Lake Park	
	Park Interim National Bank, Lake Park	
August 31	First National Bank of Lake Park, Lake Park (18340)	$41,861,000
	Central National Bank, Sarasota	
	SouthTrust Interim Bank, National Association, Sarasota	
September 1	Central National Bank, Sarasota (20011)	$40,000,000
	The Enterprise Bank, National Association, Winter Park	
	Winter Park National Bank (Interim)	
December 31	The Enterprise Bank, National Association, Winter Park (21653)	$36,569,000
	Illinois	
	The Fairfield National Bank, Fairfield	
	FNB National Bank, Fairfield	
August 20	The Fairfield National Bank, Fairfield (6609)	$116,224,000
	Kentucky	
	First National Bank of Clinton, Clinton	
	Clinton Interim National Bank, Clinton	
September 20	First National Bank of Clinton, Clinton (14259)	$24,930,000
	Louisiana	
	Southern National Bank at Tallulah, Tallulah	
	Interim National Bank, Tallulah	
August 31	Southern National Bank at Tallulah, Tallulah (14716)	$62,850,000
	Minnesota	
	First State Bank of Spring Lake Park, Spring Lake Park	
	Norwest Interim Bank, National Association, Spring Lake Park	
October 1	Bank of Spring Lake Park, National Association, Spring Lake Park (22664)	$57,210,000
	North Dakota	
	First National Bank of Bowbells, Bowbells	
	First National Bank, Minot	
September 14	First National Bank, Bowbells (7116)	$26,184,000
	Pennsylvania	
	Portage National Bank, Portage	
	Portage Interim National Bank, Portage	
July 1	Portage National Bank, Portage (14490)	$95,122,000
	South Carolina	
	Orangeburg National Bank, Orangeburg	
	Interim Orangeburg National Bank, Orangeburg	
July 1	Orangeburg National Bank, Orangeburg (21398)	$56,414,000
	Texas	
	First National Bank, Killeen	
	New First National Bank, Killeen	
November 16	First National Bank, Killeen (5750)	$179,240,000
	Wyoming	
	American National Bank of Cheyenne, Cheyenne	
	American Interim National Bank, Cheyenne	
December 10	American National Bank of Cheyenne, Cheyenne (11380)	$121,003,000

Federal branches and agencies of foreign banks in operation, July 1 to December 31, 1993

	In operation, July 1, 1993	*Opened, July 1 - December 31, 1993*	*Closed, July 1 - December 31, 1993*	*In operation, December 31, 1993*
Federal branches				
California	4	0	0	4
District of Columbia	1	0	0	1
Illinois	1	0	0	1
New York	49	0	1	48
Washington	1	0	0	1
Limited federal branches				
California	10	0	1	9
District of Columbia	2	0	0	2
Illinois	2	0	1	1
New York	5	0	0	5
Federal Agencies				
Florida	1	0	0	1
Total United States	76	0	3	73

Statistical Tables

Tables provided by the Regulatory and Statistical Analysis Division. Figures may not sum due to rounding. Data published here vary from preliminary data given earlier, because of revisions and late filings.

Assets, liabilities and capital accounts of national banks, December 31, 1992 and December 31, 1993
(Dollar amounts in millions)

	December 31, 1992	*December 31, 1993*	*Change December 31, 1992 - December 31, 1993 fully consolidated*	
	Consolidated foreign and domestic	*Consolidated foreign and domestic*	*Amount*	*Percent*
Assets				
Cash and balances due from depository institutions:				
Noninterest-bearing balances and currency and coin	$123,941	$118,088	–5,853	–4.72
Interest bearing balances	57,952	45,632	–12,320	–21.26
Investment securities	403,841	437,094	33,253	8.23
Federal funds sold and securities purchased under agreements to resell	93,567	87,609	–5,958	–6.37
Loans and leases net of unearned income	1,195,076	1,270,682	75,605	6.33
Less allowance for loan and lease losses	33,062	31,633	–1,429	–4.32
Less allocated transfer risk reserve	133	13	–119	–89.94
Net loans and leases	1,161,881	1,239,035	77,154	6.64
Premises and fixed assets	30,851	32,221	1,371	4.44
Other real estate owned	17,159	10,531	–6,628	–38.63
All other assets	117.589	131,831	14,242	12.11
Total assets	2,006,781	2,102,042	95,261	4.75
Liabilities				
Deposits:				
Noninterest-bearing deposits in domestic offices	317,978	331,575	13,597	4.28
Interest-bearing deposits in domestic offices	1,053.440	1,032,859	–20,581	–1.95
Total domestic deposits	1,371,418	1,364,434	–6,984	–0.51
Total foreign deposits	180,275	212,676	32,401	17.97
Total deposits	1,551,693	1,577,111	25,418	1.64
Federal funds purchased and securities sold under agreements to repurchase	152,862	161,971	9,109	5.96
Demand notes issued to the U.S. Treasury	13,577	20,477	6,900	50.83
Other borrowed money	61,647	89,735	28,087	45.56
Subordinated notes and debentures	21,090	24,393	3,302	15.66
All other liabilities	60,850	63,359	2,508	4.12
Total liabilities	1,861,719	1,937,045	75,325	4.05
Limited-life preferred stock	1	1	0	N/M
Equity Capital				
Perpetual preferred stock	303	164	–140	–46.04
Common stock	16,103	16,715	612	3.80
Surplus	66,635	72,513	5,878	8.82
Net undivided profits and capital reserves	62,684	76,401	13,717	21.88
Cumulative foreign currency translation adjustments	–664	–796	–132	19.93
Total equity capital	145,060	164,996	19,935	13.74
Total liabilities, limited-life preferred stock, and equity capital	2,006,781	2,101,975	95,195	4.74

NM = Not meaningful

Income and expenses of foreign and domestic offices and subsidiaries of national banks, December 31, 1993
(Dollar amounts in millions)

	Consolidated foreign and domestic	*Percent distribution*
Interest income:		
Interest and fee income on loans	$105,544	72.8
Income from lease financing receivables	2,547	1.8
Interest income on balances due from depository institutions	4,364	3.0
Interest and dividend income on securities	26,216	18.1
Interest income from assets held in trading accounts	3,408	2.4
Interest income from federal funds sold and securities purchase agreements to resell	2,834	2.0
Total interest income	144,915	100.0
Interest expense:		
Interest on deposits	47,192	73.0
Expense of federal funds purchased and securities sold under agreements to repurchase	5,021	7.8
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	10,945	16.9
Interest on mortgage indebtedness and obligations under capitalized leases	96	0.1
Interest on notes and debentures subordinated to deposits	1,401	2.2
Total interest expense	64,656	100.0
Net interest income	80,260	
Provision for loan and lease losses	9,284	
Provision for allocated transfer risk	–33	
Noninterest income:		
Service charges on deposit accounts	9,361	20.6
Other noninterest income	36,018	79.4
Total noninterest income	45,379	100.0
Gains and losses on securities not held in trading accounts	1,585	
Noninterest expense:		
Salaries and employee benefits	33,049	40.2
Expenses of premises and fixed assets (net of rental income)	10,792	13.1
Other noninterest expense	38,359	46.7
Total noninterest expense	82,199	100.0
Income (loss) before income taxes and extraordinary items and other adjustments	35,773	
Applicable income taxes	11,599	
Income before extraordinary items and other adjustments	24,056	
Extraordinary items and other adjustments, net of taxes	1,631	
Net income	25,688	
Total cash dividends declared*	13,288	
Recoveries credited to allowance for possible loan losses	3,912	
Losses charged to allowance for possible loan losses	13,985	
Net loan losses	10,073	

*Banks with assets of less than $100 million report this item only in their December Report of Income.
Note: Preliminary data.

Loans of national banks, by state, December 31, 1993
(Dollar amounts in millions)

	Total loans, gross	Domestic offices: Loans secured by real estate	Loans to farmers	Commercial and industrial loans	Loans to individuals	Other loans	Total loans at foreign offices
All national banks	$1,274,068	$506,967	$15,416	$278,409	$229,977	$101,569	$141,731
Alabama	13,252	6,234	94	3,584	2,478	861	0
Alaska	1,872	961	0	541	251	114	5
Arizona	14,515	5,356	337	1,896	6,041	885	0
Arkansas	6,660	3,577	241	1,168	1,481	193	0
California	147,989	70,008	2,234	22,148	15,775	9,931	27,892
Colorado	12,393	5,601	442	2,146	3,146	1,058	0
Connecticut	13,382	7,337	4	3,639	1,226	1,177	0
Delaware	21,028	664	2	119	20,118	110	15
District of Columbia	5,524	3,435	0	1,081	318	466	224
Florida	58,907	34,324	247	8,539	12,502	3,177	118
Georgia	34,865	14,071	126	9,716	8,588	2,351	14
Hawaii	220	141	0	68	8	3	0
Idaho	3,688	1,334	258	548	1,389	159	0
Illinois	61,350	20,903	806	21,992	8,326	6,281	3,043
Indiana	25,836	12,027	346	5,088	6,857	1,518	0
Iowa	8,741	3,404	682	1,624	2,767	263	0
Kansas	7,636	3,161	967	1,658	1,596	254	0
Kentucky	13,458	5,914	142	2,903	3,125	1,374	0
Louisiana	10,310	4,461	65	2,313	2,817	653	0
Maine	1,617	1,057	4	388	140	27	0
Maryland	15,087	8,354	14	2,941	2,388	1,045	345
Massachusetts	36,322	11,809	9	12,904	1,756	2,645	7,199
Michigan	29,350	12,296	93	8,411	5,272	2,214	1,063
Minnesota	29,424	13,565	607	7,198	3,825	4,090	140
Mississippi	5,757	2,842	121	1,163	1,347	284	0
Missouri	18,506	7,962	300	5,152	3,298	1,794	0
Montana	1,884	764	164	319	606	31	0
Nebraska	9,148	3,012	1,416	1,392	2,964	364	0
Nevada	7,745	1,105	11	226	6,372	31	0
New Hampshire	2,319	616	0	53	1,647	3	0
New Jersey	43,058	25,484	48	9,037	5,128	3,306	54
New Mexico	3,716	2,136	104	501	861	114	0
New York	191,840	41,450	155	24,353	10,673	16,493	98,717
North Carolina	41,669	17,456	192	13,423	3,749	5,849	1,001
North Dakota	2,138	941	271	455	421	51	0
Ohio	70,573	26,934	312	15,413	22,595	5,236	83
Oklahoma	8,909	3,954	642	2,262	1,738	312	0
Oregon	12,767	4,189	304	3,911	2,927	1,430	6
Pennsylvania	79,250	32,795	121	24,550	9,094	11,392	1,299
Rhode Island	8,307	3,494	0	3,177	476	1,151	8
South Carolina	13,365	7,763	39	2,235	2,311	1,017	0
South Dakota	11,403	988	442	1,683	8,165	125	0
Tennessee	22,752	10,880	133	6,008	4,230	1,501	0
Texas	71,247	28,679	1,776	21,693	12,296	6,359	444
Utah	6,241	2,925	117	1,106	1,666	427	0
Vermont	1,522	985	5	296	183	51	0
Virginia	21,593	10,152	86	6,200	4,139	1,016	0
Washington	20,241	7,764	587	5,497	5,406	947	39
West Virginia	6,925	3,923	10	1,133	1,629	229	0
Wisconsin	16,397	7,159	261	4,271	3,498	1,186	22
Wyoming	824	319	75	163	252	15	0
Puerto Rico	547	302	1	126	114	4	0

Note: Preliminary data. Zeros indicate amounts of less than $500,000.

Deposits of national banks, by state, December 31, 1993
(Dollar amounts in millions)

	Total demand deposits at domestic offices	*All NOW accounts*	*Money market deposit accounts*	*Large time deposits*	*All other deposits at domestic offices*	*Total deposits at foreign offices*	*Total consolidated deposits*
All national banks	$321,876	$177,355	$274,508	$106,554	$484,140	$212,676	$1,577,111
Alabama	2,855	1,863	2,969	1,630	5,753	255	15,325
Alaska	870	265	414	264	900	0	2,713
Arizona	4,790	2,306	5,519	972	5,270	0	18,857
Arkansas	2,094	2,124	1,362	1,244	4,720	0	11,544
California	38,514	16,119	45,173	8,407	35,191	24,493	167,897
Colorado	5,655	3,653	4,341	893	7,061	29	21,632
Connecticut	4,788	2,202	2,495	707	6,395	387	16,974
Delaware	425	143	2,624	3,506	2,667	367	9,732
District of Columbia	2,466	1,762	2,334	555	1,919	571	9,606
Florida	16,481	12,728	16,036	6,480	26,828	384	78,938
Georgia	8,559	5,969	5,367	2,530	13,699	635	36,759
Hawaii	65	36	38	36	114	0	288
Idaho	675	529	660	269	1,553	0	3,688
Illinois	19,151	7,703	11,963	11,703	26,832	12,842	90,192
Indiana	6,363	4,905	4,677	1,750	13,744	193	31,633
Iowa	2,383	1,725	1,796	558	4,829	0	11,291
Kansas	2,064	2,158	2,054	820	5,402	0	12,498
Kentucky	3,312	2,737	1,938	1,109	6,728	219	16,044
Louisiana	4,532	2,728	2,976	2,165	6,994	137	19,533
Maine	241	257	213	107	1,007	0	1,825
Maryland	5,338	2,534	3,302	1,093	8,804	627	21,698
Massachusetts	7,886	3,293	7,069	2,700	8,101	7,776	36,825
Michigan	7,748	3,013	7,024	2,197	13,797	2,136	35,916
Minnesota	9,081	4,030	6,609	1,656	9,796	974	32,145
Mississippi	1,705	1,454	1,590	812	3,474	0	9,035
Missouri	6,943	4,209	5,631	1,082	9,766	68	27,699
Montana	539	486	552	124	1,006	0	2,708
Nebraska	2,069	1,860	1,301	1,731	5,566	0	12,528
Nevada	1,235	640	1,119	479	1,173	0	4,646
New Hampshire	132	125	376	831	684	0	2,149
New Jersey	13,787	8,387	8,705	2,670	28,803	36	62,387
New Mexico	1,245	1,204	1,033	559	2,571	0	6,611
New York	30,099	7,077	29,434	8,365	23,056	141,212	239,243
North Carolina	8,859	5,164	5,627	2,919	12,287	9,464	44,320
North Dakota	523	633	478	166	1,405	0	3,205
Ohio	14,569	9,469	9,738	3,668	34,472	3,775	75,691
Oklahoma	3,155	2,619	2,175	1,687	6,061	25	15,721
Oregon	3,463	2,270	2,975	393	4,415	34	13,549
Pennsylvania	19,244	8,506	17,067	6,638	34,925	3,685	90,065
Rhode Island	1,142	624	1,985	1,265	2,943	247	8,206
South Carolina	3,119	2,905	2,554	982	5,386	5	14,952
South Dakota	967	618	1,089	948	3,041	0	6,663
Tennessee	6,208	4,139	5,598	2,191	12,212	156	30,504
Texas	26,404	17,315	20,470	10,499	35,858	1,481	112,029
Utah	1,884	1,161	1,269	197	3,122	75	7,709
Vermont	249	265	396	68	814	0	1,792
Virginia	5,483	4,423	4,328	1,965	12,540	0	28,739
Washington	6,133	2,847	6,305	807	5,346	79	21,517
West Virginia	1,392	1,407	828	545	5,680	0	9,853
Wisconsin	4,615	2,286	2,623	997	8,588	310	19,418
Wyoming	301	380	299	145	638	0	1,764
Puerto Rico	75	100	8	470	204	0	857

Note: Preliminary data. Zeros indicate amounts of less than $500,000.

Interest income of national banks, by state, December 31, 1993
(Dollars amounts in millions)

	Interest and fees on loans	Income from lease financing	Interest due from other depository institutions	Interest and dividends on securities	Interest from trading account assets	Interest from federal funds transactions	Total interest income
All national banks	$105,544	$2,547	$4,364	$26,216	$3,408	$2,834	$144,915
Alabama	981	8	2	341	2	17	1,353
Alaska	162	1	1	98	0	1	263
Arizona	1,231	35	2	330	2	18	1,619
Arkansas	509	2	3	286	0	14	813
California	11,198	323	207	1,478	373	184	13,767
Colorado	1,027	9	14	465	0	37	1,552
Connecticut	909	0	0	496	0	24	1,430
Delaware	2,519	6	4	93	0	10	2,632
District of Columbia	304	1	25	158	0	37	526
Florida	4,625	16	42	1,357	1	162	6,204
Georgia	2,556	46	14	532	6	57	3,212
Hawaii	18	0	0	3	0	1	22
Idaho	288	3	0	38	8	2	340
Illinois	4,429	35	452	1,339	224	311	6.790
Indiana	2,080	49	7	535	0	41	2,712
Iowa	663	2	2	333	0	15	1,014
Kansas	616	8	4	340	0	15	982
Kentucky	965	23	2	281	0	29	1,300
Louisiana	844	2	16	560	0	27	1,450
Maine	127	0	0	21	0	3	151
Maryland	787	11	4	351	1	46	1,201
Massachusetts	4,822	208	1,076	1,376	12	39	7,533
Michigan	2,230	18	43	690	10	42	3,033
Minnesota	2,011	51	6	478	7	77	2,631
Mississippi	448	1	2	279	0	12	742
Missouri	1,365	18	5	604	7	60	2,059
Montana	168	0	1	48	0	8	225
Nebraska	821	1	2	233	0	18	1,074
Nevada	1,009	0	4	100	0	4	1,116
New Hampshire	387	0	0	17	0	9	413
New Jersey	3,297	39	61	959	7	112	4,474
New Mexico	333	2	2	144	0	19	500
New York	21,356	872	2,037	2,506	2,449	358	29,578
North Carolina	2,740	84	58	733	205	161	3,981
North Dakota	170	1	2	62	0	6	241
Ohio	5,889	187	22	1,243	3	112	7,456
Oklahoma	689	1	7	412	1	17	1,127
Oregon	954	62	0	175	11	12	1,214
Pennsylvania	4,936	223	127	1,820	16	102	7,224
Rhode Island	518	79	1	123	0	10	731
South Carolina	1,014	3	1	292	1	45	1,356
South Dakota	1,098	2	1	54	0	11	1.166
Tennessee	1,649	14	15	657	21	35	2,390
Texas	4,964	29	65	2,320	9	366	7,753
Utah	498	18	6	122	21	24	688
Vermont	128	0	0	23	0	1	153
Virginia	1,552	7	15	555	2	75	2,206
Washington	1,679	26	0	99	7	7	1,818
West Virginia	570	0	2	268	0	11	851
Wisconsin	1,280	20	4	310	1	25	1,641
Wyoming	74	0	1	54	0	2	130
Puerto Rico	55	0	0	22	0	2	80

Note: Preliminary data. Zeros indicate amounts of less than $500,000.

Noninterest income of national banks, by state, December 31, 1993
(Dollar amounts in millions)

	Service charges on deposit accounts	Gains (losses) on foreign exchange transactions	Gains (losses) on fees from assets in trading accounts	Other noninterest income + extraordinary items	Gains (losses) on assets not in trading accounts	Total noninterest income and gains (losses) on assets not in trading accounts
All national banks	$9,361	$1,969	$2,597	$33,083	$1,585	$48,595
Alabama	96	4	9	217	12	340
Alaska	19	0	0	46	1	66
Arizona	158	2	5	275	0	441
Arkansas	63	0	8	121	11	204
California	1,450	187	443	3,124	64	5,267
Colorado	160	1	3	571	4	739
Connecticut	114	2	3	363	98	580
Delaware	6	0	0	2,403	3	2,412
District of Columbia	55	1	1	131	25	213
Florida	584	8	2	835	44	1,473
Georgia	340	5	5	548	16	915
Hawaii	1	0	0	2	0	3
Idaho	28	0	−1	21	0	49
Illinois	466	122	418	1,340	173	2,520
Indiana	164	1	1	365	12	543
Iowa	52	0	0	214	30	297
Kansas	72	0	1	116	6	194
Kentucky	81	0	0	144	7	233
Louisiana	143	1	4	244	5	396
Maine	8	0	0	17	0	26
Maryland	143	1	1	122	23	290
Massachusetts	183	49	29	478	69	808
Michigan	198	13	7	482	15	715
Minnesota	182	14	18	777	33	1,023
Mississippi	57	0	2	79	2	139
Missouri	180	8	43	400	7	638
Montana	14	0	0	30	2	46
Nebraska	59	0	1	233	4	296
Nevada	31	0	0	1,130	0	1,161
New Hampshire	3	0	0	211	1	214
New Jersey	348	3	13	515	89	968
New Mexico	43	0	0	78	2	122
New York	505	1,442	1,269	6,630	241	10,086
North Carolina	288	19	96	880	18	1,301
North Dakota	13	0	0	31	1	44
Ohio	406	12	14	1,707	67	2,206
Oklahoma	109	2	8	190	11	320
Oregon	145	1	21	436	1	604
Pennsylvania	492	33	15	1,310	280	2,130
Rhode Island	28	0	0	234	15	276
South Carolina	116	1	2	204	17	340
South Dakota	18	−1	0	2,135	2	2,154
Tennessee	215	1	121	392	9	737
Texas	910	22	20	1,976	91	3,019
Utah	63	0	5	118	0	187
Vermont	8	0	0	17	2	28
Virginia	172	0	0	382	62	616
Washington	216	11	7	390	1	624
West Virginia	34	0	0	75	7	116
Wisconsin	109	3	2	330	4	447
Wyoming	8	0	0	13	1	22
Puerto Rico	3	0	0	3	0	6

Note: Preliminary data. Zeros indicate amounts of less than $500,000.

Interest expense of national banks, by state, December 31, 1993
(Dollar amounts in millions)

	Interest on deposits	Expense of federal funds transactions	Interest on Treasury demand notes and other borrowed money	Interest on mortgage and capitalized leases	Interest on subordinated notes and debentures	Total interest expense
All national banks	$47,192	$5,021	$10,945	$96	$1,401	$64,656
Alabama	449	67	17	0	2	535
Alaska	55	16	0	0	0	70
Arizona	388	16	115	0	7	526
Arkansas	298	6	3	1	0	308
California	3,545	155	429	13	244	4,385
Colorado	481	21	3	2	2	509
Connecticut	363	113	12	1	3	492
Delaware	339	144	235	2	33	753
District of Columbia	178	20	3	0	1	203
Florida	1,844	266	56	3	12	2,181
Georgia	998	219	42	2	25	1,286
Hawaii	6	0	0	0	0	6
Idaho	103	16	3	0	1	124
Illinois	2,505	284	253	15	132	3,189
Indiana	899	94	29	1	0	1,022
Iowa	325	43	28	1	1	398
Kansas	356	23	9	0	0	388
Kentucky	435	66	10	0	2	514
Louisiana	445	40	3	0	0	488
Maine	62	2	1	0	0	65
Maryland	368	60	18	1	6	453
Massachusetts	3,631	184	1,621	1	33	5,470
Michigan	1,031	107	81	3	26	1,249
Minnesota	693	147	86	2	14	942
Mississippi	254	34	3	0	0	290
Missouri	683	106	29	6	3	826
Montana	63	3	0	0	1	67
Nebraska	367	16	2	2	4	392
Nevada	128	18	104	0	0	250
New Hampshire	69	11	38	0	0	118
New Jersey	1,420	69	12	1	28	1,530
New Mexico	171	9	2	0	0	182
New York	11,734	553	6,623	9	507	19,426
North Carolina	1,031	572	258	7	53	1,922
North Dakota	96	1	1	0	1	99
Ohio	1,919	334	152	4	60	2,469
Oklahoma	422	16	7	0	1	446
Oregon	281	29	41	1	4	355
Pennsylvania	2,045	339	271	3	76	2,735
Rhode Island	267	23	24	0	5	318
South Carolina	379	120	9	1	7	516
South Dakota	317	41	94	0	7	459
Tennessee	818	95	24	1	8	946
Texas	2,532	276	116	5	54	2,982
Utah	190	44	17	0	3	254
Vermont	54	5	1	0	0	60
Virginia	822	83	23	1	9	937
Washington	449	29	26	3	17	523
West Virginia	303	22	5	0	0	330
Wisconsin	509	67	6	1	7	591
Wyoming	46	1	0	0	0	47
Puerto Rico	27	0	0	0	2	29

Note: Preliminary data. Zeros indicate amounts of less than $500,000.

Noninterest and other expense of national banks, by state, December 31, 1993
(Dollar amounts in millions)

	Provision for loan and lease losses	*Provision for allocated transfer risk*	*Salaries and employee benefits*	*Expenses of premises and fixed assets*	*Applicable income taxes*	*Other noninterest expense*	*Total noninterest and other expense*
All national banks	$9,284	-$33	$33,049	$10,792	$11,599	$38,359	$103,050
Alabama	49	0	345	104	119	270	886
Alaska	10	0	79	24	32	43	188
Arizona	119	0	449	124	138	478	1,308
Arkansas	15	0	195	54	74	184	522
California	1,428	0	4,087	1,558	1,649	3,656	12,378
Colorado	-27	0	425	138	180	681	1,397
Connecticut	100	0	409	128	97	504	1,238
Delaware	608	0	549	128	376	1,785	3,446
District of Columbia	77	0	149	57	28	259	570
Florida	299	6	1,185	500	623	1,773	4,385
Georgia	249	-14	649	210	227	1,006	2,326
Hawaii	1	0	8	4	1	5	18
Idaho	15	0	57	16	32	95	216
Illinois	432	-2	1,722	497	441	1,577	4,666
Indiana	144	0	572	183	266	595	1,761
Iowa	56	0	215	67	101	258	698
Kansas	19	0	213	57	76	240	607
Kentucky	44	0	265	81	98	282	769
Louisiana	-96	0	392	108	141	387	933
Maine	0	0	36	12	9	34	90
Maryland	48	-2	324	106	92	287	855
Massachusetts	9	0	901	278	274	918	2,379
Michigan	140	0	764	206	194	704	2,009
Minnesota	102	0	629	196	346	799	2,072
Mississippi	25	0	174	48	54	150	450
Missouri	82	0	524	162	202	487	1,457
Montana	13	0	44	15	23	70	166
Nebraska	66	0	231	76	106	268	747
Nevada	336	0	137	39	270	714	1,497
New Hampshire	67	0	13	3	78	215	377
New Jersey	309	0	984	352	117	1,286	3,048
New Mexico	13	0	132	43	33	131	352
New York	2,607	-25	5,919	1,972	912	5,927	17,312
North Carolina	76	0	903	283	353	924	2,540
North Dakota	5	0	52	15	20	48	140
Ohio	554	0	1,441	403	791	2,314	5,503
Oklahoma	8	0	314	85	73	299	779
Oregon	58	0	422	116	171	379	1,148
Pennsylvania	346	0	1,777	614	677	1,614	5,028
Rhode Island	49	0	228	43	90	128	539
South Carolina	28	0	260	93	119	395	895
South Dakota	359	0	219	54	353	1,357	2,342
Tennessee	45	0	626	169	216	645	1,701
Texas	97	3	2,240	798	642	2,188	5,967
Utah	6	0	150	35	68	227	487
Vermont	10	0	37	12	5	43	106
Virginia	153	0	514	177	111	621	1,575
Washington	50	0	481	173	249	504	1,456
West Virginia	23	0	172	45	79	148	467
Wisconsin	51	0	393	117	160	408	1,129
Wyoming	0	0	30	8	11	32	81
Puerto Rico	6	0	14	6	3	16	44

Note: Preliminary data. Zeros indicate amounts of less than $500,000.

Book value of securities at domestic offices of national banks, by state, December 31, 1993
(Dollar amounts in millions)

	U.S. Treasury securities	U.S. government issued or guaranteed certificates of participation	Other U.S. government agency and corporation obligations	Securities issued by states and political subdivisions in the U.S.	Other domestic debt securities	Foreign debt securities	Equity securities
All national banks	$136,943	$98,756	$111,051	$33,833	$26,475	$1,223	$7,538
Alabama	788	1,155	1,950	829	69	14	69
Alaska	802	53	254	183	185	0	16
Arizona	2,243	1,078	2,203	100	850	1	35
Arkansas	1,702	461	1,892	710	149	1	48
California	4,103	7,995	7,479	661	2,471	16	576
Colorado	2,239	2,652	1,529	421	482	0	101
Connecticut	3,671	4,381	314	15	906	6	47
Delaware	858	130	359	20	127	1	42
District of Columbia	1,483	828	1,680	82	270	2	55
Florida	9,154	3,554	5,901	1,483	1,864	39	469
Georgia	4,457	1,815	1,737	1,084	391	74	176
Hawaii	26	0	19	1	0	0	1
Idaho	179	57	206	36	68	0	19
Illinois	7,035	3,625	7,070	3,153	1,385	21	615
Indiana	1,702	2,734	2,544	1,267	527	2	117
Iowa	1,236	1,307	1,216	635	108	0	76
Kansas	1,524	1,203	2,246	735	59	2	71
Kentucky	1,894	405	1,181	868	235	0	77
Louisiana	4,002	3,555	1,933	286	149	3	61
Maine	165	63	90	22	29	0	9
Maryland	3,263	1,330	2,498	614	148	4	192
Massachusetts	2,450	2,696	1,410	65	1,082	93	249
Michigan	1,953	4,252	2,812	1,544	302	79	114
Minnesota	1,898	3,236	1,055	793	474	5	182
Mississippi	1,316	385	1,895	583	159	1	29
Missouri	5,004	1,922	2,332	881	779	3	65
Montana	121	361	147	38	5	0	14
Nebraska	1,317	517	982	600	53	0	43
Nevada	713	282	697	35	243	0	23
New Hampshire	111	85	67	15	31	1	16
New Jersey	5,956	4,023	5,051	1,080	1,773	52	223
New Mexico	665	688	886	222	48	0	39
New York	7,619	5,939	2,970	2,188	800	541	1,488
North Carolina	10,736	1,354	453	1,197	330	1	75
North Dakota	179	426	239	66	7	0	25
Ohio	5,562	4,345	6,037	2,219	2,202	6	204
Oklahoma	2,649	1,309	2,037	707	202	1	96
Oregon	1,084	560	680	297	70	0	16
Pennsylvania	5,313	8,055	14,584	1,929	2,065	121	419
Rhode Island	657	1,118	0	10	50	4	24
South Carolina	2,373	813	1,479	301	20	3	34
South Dakota	144	356	72	105	14	0	26
Tennessee	2,869	1,729	4,719	1,010	155	4	118
Texas	15,430	10,926	10,065	1,829	3,240	53	465
Utah	450	157	888	224	170	0	187
Vermont	116	156	99	22	4	0	19
Virginia	4,111	2,688	1,735	581	993	61	115
Washington	408	340	310	217	85	0	120
West Virginia	1,043	449	1,840	554	213	0	54
Wisconsin	1,646	944	854	1,204	370	8	167
Wyoming	430	159	209	67	58	0	12
Puerto Rico	95	107	143	46	7	0	4

Note: Preliminary data. Zeros indicate amounts of less than $500,000.

Selected off-balance sheet items at national banks, by state, December 31, 1993
(Dollar amounts in millions)

	Unused commitments	Letters of credit	Securities lent	Mortgages transferred to FNMA and FHLMC with recourse	Notional value of swap contracts	When-issued securities and futures and forward contracts	Written and purchased option contracts
All national banks	$925,827	$128,084	$21,380	$6,376	$1,335,052	$3,104,713	$992,479
Alabama	5,862	799	98	4	2,137	391	1,305
Alaska	631	25	0	0	170	99	0
Arizona	30,764	265	0	5	4,613	281	10
Arkansas	1,457	83	0	121	0	198	106
California	81,718	19,214	5,093	108	263,401	570,397	90,956
Colorado	6,215	353	323	0	3,052	28	31
Connecticut	6,801	963	0	165	3,891	8,108	3,060
Delaware	150,401	7	0	0	9,856	45	190
District of Columbia	1,480	254	0	0	960	34	408
Florida	22,451	2,453	37	264	6,121	3,529	5,340
Georgia	31,389	3,583	8	56	6,782	1,005	1,216
Hawaii	70	3	0	0	0	0	0
Idaho	1,134	47	0	0	958	2,142	648
Illinois	57,019	9.675	104	9	174,325	289,174	118,350
Indiana	10,982	1,197	616	10	7,082	594	335
Iowa	8,445	246	321	0	269	10	0
Kansas	2,901	131	0	14	251	14	0
Kentucky	2,819	442	107	20	850	10	78
Louisiana	3,630	279	126	32	596	25	1,420
Maine	421	14	0	0	215	0	90
Maryland	6,028	1,123	147	30	3,770	1,206	3,228
Massachusetts	22,393	4,194	6	103	13,722	48,329	18,672
Michigan	14,447	1,942	0	116	5,718	3,962	517
Minnesota	14,527	2,532	664	48	4,541	4,402	11,011
Mississippi	1,480	116	378	0	560	362	0
Missouri	8,580	1,406	510	0	2,103	1,707	130
Montana	978	56	72	0	145	0	0
Nebraska	8,487	167	73	0	250	9	0
Nevada	15,607	51	0	0	5,983	725	12,002
New Hampshire	4,756	2	0	0	400	0	656
New Jersey	11,081	1,300	0	27	10,646	1,311	584
New Mexico	975	48	0	6	165	0	0
New York	100,218	45,136	2,620	4,131	612,016	2,051,330	532,639
North Carolina	28,216	4,752	591	34	36,759	60,510	161,074
North Dakota	628	20	45	0	42	1	0
Ohio	61,962	4,584	119	87	53,189	3,522	6,704
Oklahoma	2,605	336	0	26	21	43	5
Oregon	12,448	556	0	13	1,262	1,593	865
Pennsylvania	33,309	9,143	1,606	91	35,118	18,541	6,184
Rhode Island	4,330	357	0	0	9,705	377	185
South Carolina	3,210	229	61	3	173	59	15
South Dakota	67,153	50	0	0	5,635	350	7,557
Tennessee	8,790	1,204	382	736	2,818	2,162	513
Texas	31,029	4,294	6,456	70	21,051	5,822	3,343
Utah	2,834	253	0	0	684	4,408	1,692
Vermont	393	33	0	0	47	19	12
Virginia	8,795	1,227	64	22	3,063	9	55
Washington	14,850	2,060	16	0	9,527	17,814	394
West Virginia	1,142	112	210	0	1,647	0	25
Wisconsin	7,723	749	522	26	8,764	58	864
Wyoming	141	16	5	0	0	0	0
Puerto Rico	118	3	0	0	0	0	10

Swap, futures and forward, and option contracts include interest rate, foreign exchange, commodities and equities contracts.
Note: Preliminary data. Zeros indicate amounts less than $500,000.

Outstanding balances, credit cards and related plans of national banks, by state, December 31, 1993
(Dollar amounts in thousands)

	Total number of national banks	Credit cards and other related credit plans	
		Number of national banks	*Outstanding volume*
All national banks	3,321	2,134	$90,437,112
Alabama	50	30	513,928
Alaska	4	3	57 136
Arizona	14	13	2,991,267
Arkansas	75	30	219,308
California	141	132	9,717,261
Colorado	156	137	914,795
Connecticut	11	9	184,628
Delaware	16	16	19,928,192
District of Columbia	18	14	141,592
Florida	133	76	2,991,340
Georgia	73	54	3,711,264
Hawaii	2	2	3,542
Idaho	6	6	133,484
Illinois	289	177	1,596,769
Indiana	64	58	1,074,101
Iowa	83	59	1,483,926
Kansas	141	47	399,230
Kentucky	82	47	209,520
Louisiana	42	21	515,159
Maine	7	6	34,814
Maryland	23	20	983,839
Massachusetts	23	18	386,099
Michigan	50	38	564,421
Minnesota	139	110	1,363,331
Mississippi	27	13	108,362
Missouri	72	51	651,760
Montana	31	22	239,802
Nebraska	104	51	1,682,334
Nevada	8	6	6,116,602
New Hampshire	7	5	1,565,604
New Jersey	42	37	649,687
New Mexico	33	20	156,224
New York	77	54	5,498,481
North Carolina	14	14	418,778
North Dakota	27	21	93,950
Ohio	120	95	7,345,704
Oklahoma	129	63	120,780
Oregon	7	7	1,540,089
Pennsylvania	134	87	1,047,668
Rhode Island	2	2	155,500
South Carolina	27	27	195,514
South Dakota	19	12	6,625,955
Tennessee	44	23	793,509
Texas	501	203	898,028
Utah	8	7	200,322
Vermont	9	7	70,348
Virginia	41	27	1,027,511
Washington	19	18	2,024,898
West Virginia	61	30	106,537
Wisconsin	94	90	955,249
Wyoming	21	18	13,434
Puerto Rico	1	1	15,536

Note: Preliminary data.

Consolidated foreign and domestic loans and leases past due at national banks, by state, December 31, 1993
(Dollar amounts in millions)

	Number of banks	Type of loan: All real estate	Commercial and industrial*	Personal†	Leases	Other loans‡	Total loans	To non-U.S. addresses
All national banks	3,321	$10,187.9	$3,302.6	$6,751.7	$161.6	$446.1	$20,850.0	$587.91
Alabama	50	80.3	30.2	59.6	0.5	3.5	174.1	0.00
Alaska	4	17.7	7.0	5.5	0.1	1.7	32.1	0.00
Arizona	14	50.6	18.2	167.6	1.2	5.5	243.2	0.11
Arkansas	75	44.7	19.0	23.3	0.0	0.9	88.0	0.00
California	141	1,680.2	284.9	524.6	9.7	63.5	2,562.8	24.04
Colorado	156	79.0	43.9	47.7	0.5	9.2	180.3	0.00
Connecticut	11	146.6	40.2	35.2	0.0	8.0	229.9	0.00
Delaware	16	9.0	5.1	601.7	1.0	0.0	616.8	0.00
District of Columbia	18	70.6	16.1	7.1	0.1	13.8	107.7	12.53
Florida	133	475.9	46.4	181.2	0.2	7.7	711.4	3.68
Georgia	73	179.4	168.7	111.3	4.6	20.4	484.4	0.53
Hawaii	2	1.6	0.8	0.2	0.0	0.0	2.6	0.00
Idaho	6	14.4	5.8	14.7	0.0	2.2	37.1	0.00
Illinois	289	399.7	322.5	155.2	0.4	10.9	888.7	4.00
Indiana	64	191.4	97.6	183.6	4.1	14.6	491.4	0.00
Iowa	83	30.4	25.9	56.8	0.0	1.4	114.6	0.00
Kansas	141	38.0	28.7	24.1	0.6	2.0	93.4	0.00
Kentucky	82	72.6	30.1	55.9	2.3	1.2	162.0	0.00
Louisiana	42	46.0	29.5	61.0	0.2	2.9	139.6	0.00
Maine	7	22.6	3.7	3.9	0.0	0.2	30.3	0.00
Maryland	23	146.5	13.4	44.7	0.2	3.0	207.8	0.00
Massachusetts	23	351.5	95.9	48.3	1.1	4.5	501.3	20.81
Michigan	50	271.3	54.4	87.2	3.3	5.2	421.5	0.11
Minnesota	139	129.7	101.5	56.8	5.2	10.7	304.0	0.00
Mississippi	27	31.9	14.8	20.5	0.0	1.1	68.4	0.00
Missouri	72	102.3	61.6	47.6	3.0	12.7	227.1	0.00
Montana	31	9.5	13.3	12.5	0.0	0.6	35.9	0.00
Nebraska	104	25.6	24.8	76.3	0.0	1.2	127.9	0.00
Nevada	8	13.8	5.5	334.0	0.1	0.0	353.4	0.00
New Hampshire	7	8.5	0.9	41.9	0.0	0.0	51.3	0.00
New Jersey	42	970.4	291.7	124.8	4.9	22.8	1,414.6	0.00
New Mexico	33	40.8	11.1	19.3	0.1	0.4	71.7	0.00
New York	77	1,881.2	430.6	1,048.8	38.3	80.8	3,479.8	513.58
North Carolina	14	137.4	72.6	37.7	0.9	14.3	262.9	0.00
North Dakota	27	10.6	7.8	8.1	0.1	2.1	28.7	0.00
Ohio	120	414.3	161.4	534.7	10.6	14.7	1,135.7	0.00
Oklahoma	129	56.8	38.0	31.8	0.0	4.2	130.8	0.00
Oregon	7	30.4	16.2	39.4	15.0	1.4	102.4	0.00
Pennsylvania	134	686.8	200.8	320.4	22.4	39.4	1,269.8	1.27
Rhode Island	2	72.2	26.4	20.1	19.7	2.6	141.0	0.00
South Carolina	27	96.3	23.3	30.8	0.4	1.6	152.3	0.00
South Dakota	19	11.4	28.1	843.3	0.1	7.6	890.5	0.00
Tennessee	44	142.4	29.1	82.6	1.5	3.1	258.6	0.00
Texas	501	393.2	163.3	226.0	0.7	17.3	800.3	5.22
Utah	8	28.0	9.1	19.5	0.4	1.9	58.9	0.00
Vermont	9	14.3	4.8	3.4	0.0	0.0	22.5	0.00
Virginia	41	153.1	55.8	77.8	0.5	6.0	293.1	0.00
Washington	19	149.9	30.4	81.6	1.5	15.6	279.1	2.02
West Virginia	61	56.3	25.8	44.2	0.0	0.3	126.5	0.00
Wisconsin	94	88.1	60.2	60.4	6.2	1.0	215.9	0.03
Wyoming	21	4.3	4.0	4.1	0.0	0.3	12.8	0.00
Puerto Rico	1	8.3	1.6	3.1	0.0	0.0	13.0	0.00

*For banks with assets of less than $300 million, this category captures commercial (time and demand) and all other loans.
†For banks with assets of less than $300 million, this category captures installment loans and credit cards and related plans.
‡Does not include banks with assets of less than $300 million.

*Percent of loans past due, by asset size of national banks, December 31, 1993**

	Less than $300M	*$300M to $1B*	*$1B to $10B*	*Greater than $10B*	*All national banks*
Real estate					
March 1993	2.09	1.82	2.39	2.61	2.37
June 1993	1.71	1.58	2.05	2.25	2.04
September 1993	1.68	1.49	2.05	2.21	2.00
December 1993	1.57	1.37	1.84	2.23	1.93
Commercial and industrial†					
March 1993	4.44	2.83	1.67	1.10	1.48
June 1993	3.39	2.48	1.73	0.74	1.20
September 1993	3.26	2.24	1.37	0.78	1.11
December 1993	3.03	1.96	1.29	0.64	0.96
Personal‡					
March 1993	2.47	2.30	3.61	3.15	3.16
June 1993	2.35	2.18	3.37	2.91	2.95
September 1993	2.31	2.22	3.36	2.67	2.86
December 1993	2.38	1.99	3.11	2.54	2.70
Leases					
March 1993	2.08	1.23	1.45	0.67	0.93
June 1993	1.81	1.00	1.32	0.55	0.79
September 1993	1.45	0.86	1.06	0.54	0.71
December 1993	1.09	0.77	0.95	0.49	0.64
Other loans					
March 1993	N/M	0.46	0.75	0.67	0.64
June 1993	N/M	0.33	0.77	0.38	0.43
September 1993	N/M	0.52	0.77	0.54	0.56
December 1993	–0.02	0.38	0.60	0.33	0.37
Total loans					
March 1993	2.37	2.04	2.43	1.90	2.09
June 1993	1.93	1.82	2.24	1.57	1.80
September 1993	1.87	1.73	2.15	1.55	1.76
December 1993	1.78	1.56	1.99	1.46	1.64

*Past due loans in each category are stated as a percentage of loans outstanding of that type.
†For banks with assets of less than $300 million, this category captures commercial (time and demand) and all other loans.
‡For banks with assets of less than $300 million, this category captures installment loans and credit cards and related plans.
Note: Preliminary end-of-quarter data.
N/M = Not meaningful.

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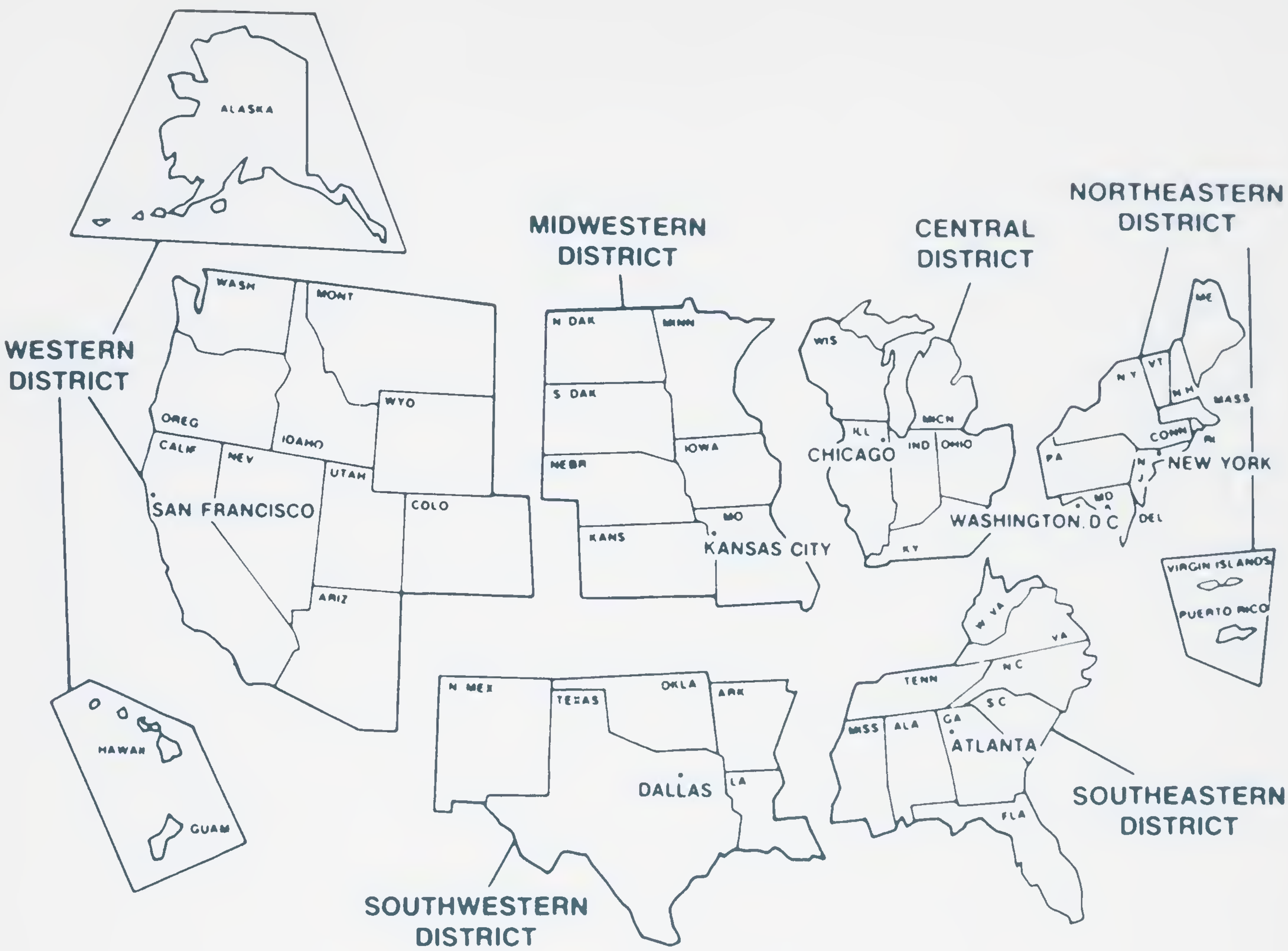

Northeastern District

New York District Office
1114 Avenue of the Americas
Suite 3900
New York, NY 10036-7780

(212) 819-9860

Central District

Chicago District Office
One Financial Place
Suite 2700
440 South LaSalle Street
Chicago, IL 60605-1073

(312) 663-8000

Southwestern District

Dallas District Office
1600 Lincoln Plaza
500 North Akard
Dallas, TX 75201-3394

(214) 720-0656

Southeastern District

Atlanta District Office
Marquis One Tower
Suite 600
245 Peachtree Center Ave., N.E.
Atlanta, GA 30303-1223

(404) 659-8855

Midwestern District

Kansas City District Office
2345 Grand Avenue
Suite 700
Kansas City, MO 64108-2683

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Western District

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